

BLACKBAUD INC  
Form 10-K  
February 22, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended December 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 000-50600

Blackbaud, Inc.  
(Exact name of registrant as specified in its charter)

Delaware 11-2617163  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)  
2000 Daniel Island Drive  
Charleston, South Carolina 29492  
(Address of principal executive offices, including zip code)  
(843) 216-6200  
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:  
Title of Each Class Name of Each Exchange on which Registered  
Common Stock, \$0.001 Par Value The NASDAQ Stock Market LLC  
(NASDAQ Global Select Market)  
Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES  NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 30, 2016 (based on the closing sale price of \$67.90 on that date) was approximately \$3,142,932,861. Common stock held by each officer and director and by each person known to the registrant who owned 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the registrant's common stock outstanding as of February 6, 2017 was 47,532,014.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2017 Annual Meeting of Stockholders currently scheduled to be held June 13, 2017 are incorporated by reference into Part III hereof. Such definitive Proxy Statement will be filed with the Securities and Exchange Commission no later than 120 days after the conclusion of the registrant's fiscal year ended December 31, 2016.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K, including the documents incorporated herein by reference, contains forward-looking statements that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These "forward-looking statements" are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements consist of, among other things, trend analyses, statements regarding future events, future financial performance, our anticipated growth, the effect of general economic and market conditions, our business strategy and our plan to build and grow our business, our operating results, our ability to successfully integrate acquired businesses and technologies, the effect of foreign currency exchange rate and interest rate fluctuations on our financial results, the impact of expensing stock-based compensation, the sufficiency of our capital resources, our ability to meet our ongoing debt and obligations as they become due, and potential litigation involving us, all of which are based on current expectations, estimates, and forecasts, and the beliefs and assumptions of our management. Words such as "believes," "seeks," "expects," "may," "might," "should," "intends," "could," "would," "likely," "will," "targets," "plans," "anticipates," "aims," "projects," "estimates," or any such words and similar expressions are also intended to identify such forward-looking statements. These forward-looking statements are subject to risks, uncertainties and assumptions that are difficult to predict. Accordingly, they should not be viewed as assurances of future performance, and actual results may differ materially and adversely from those expressed in any forward-looking statements.

Important factors that could cause actual results to differ materially from our expectations expressed in forward-looking statements include, but are not limited to, those summarized under "Item 1A. Risk factors" and elsewhere in this report and in our other SEC filings. Forward-looking statements represent our management's beliefs and assumptions only as of the date of this Annual Report on Form 10-K. We undertake no obligation to update or revise any forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I.

ITEM 1. BUSINESS

Description of Business

We are the world's leading cloud software company powering social good. We combine software, services, data intelligence and expertise to help nonprofits, foundations, education institutions, corporations and individual change agents advance their missions. Blackbaud brings more than three decades of software and services leadership to the sector, offering a full spectrum of cloud and on-premise solutions, as well as a resource network that empowers and connects organizations of all sizes. Since originally incorporating in New York in 1981, later reincorporating as a South Carolina corporation in 1991 and a Delaware corporation in 2004, our portfolio of software and services has grown to support nonprofit fundraising and relationship management, digital marketing, advocacy, accounting, payments and analytics, as well as grant management, corporate social responsibility, and education. Our solutions are designed to meet the needs of virtually all types of nonprofit and charitable giving, from major global institutions to local soup kitchens. With recent acquisitions, we have expanded our addressable market to include institutions involved with the entire spectrum of giving activities, such as nonprofits, K-12 private and higher education institutions, faith-based organizations, healthcare organizations, foundations, and other charitable giving entities and corporations. Organizations that use Blackbaud technology raise, invest, manage and award more than \$100 billion each year. At the end of 2016, we had approximately 35,000 customers located in over 60 countries using our solutions. We are deeply proud to play a part in our customers' success in their missions to cure diseases, advance education, preserve and share arts and culture, help animals, support those in need and more.

Market Overview

The philanthropic industry is significant and our addressable market is substantial and growing. There were approximately 1.6 million U.S. nonprofit organizations registered with the Internal Revenue Service in 2016, including approximately 1.1 million charitable 501(c)(3) organizations. Worldwide, there are millions more charities. The nonprofit market represents the third largest workforce category in the U.S. behind retail and manufacturing, representing 10% of total employment in the United States. According to Giving USA, donations made to U.S. nonprofit organizations in 2015 were \$373.3 billion, amounting to 2.1% of U.S. GDP, a 4.1% increase from 2014. The average annual rate of change in total giving dollars over the last 40 years was 6.7%. Our estimated current total addressable market ("TAM") is \$6.7 billion. This includes an expansion in 2015 from our acquisition of Smart, LLC ("Smart Tuition") into K-12 tuition and financial aid management, which is a new and near adjacency within the education market. The total market expansion created by our acquisitions of Smart Tuition, WhippleHill Communications, Inc. ("WhippleHill") and MicroEdge Holdings, LLC ("MicroEdge") is estimated to be in excess of \$1.5 billion.

Traditional methods of fundraising are often costly and inefficient

Many nonprofits use manual methods or stand-alone software applications not specifically designed to manage fundraising. Such methods are often costly and inefficient because of the difficulties in effectively collecting, sharing, and using donation-related information. Furthermore, general purpose software applications frequently have limited functionality and do not efficiently integrate multiple databases. Some nonprofit organizations have developed proprietary software, but doing so is expensive, requiring on-site technical personnel for development, implementation and maintenance.

The nonprofit industry faces particular operational challenges

Nonprofit organizations must efficiently:

• Solicit funds and build relationships with major donors;

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Garner small cash contributions from numerous contributors;  
Manage and develop complex relationships with large numbers of constituents;  
Communicate their accomplishments and the importance of their mission online and offline;  
Comply with complex accounting, tax and reporting requirements that differ from those for traditional businesses;  
Solicit cash and in-kind contributions from businesses to help raise money or deliver products and services;  
Provide a wide array of programs and services to individual constituents; and  
Improve the data collection and information sharing capabilities of their employees, volunteers and donors by creating and providing distributed access to centralized databases.

Because of these challenges, we believe nonprofit organizations can benefit from software applications and services specifically designed to serve their particular needs.

Corporations, grant making institutions and foundations also face unique challenges

The market segments addressed by our MicroEdge acquisition, which include corporations, grant making institutions and foundations, face their own unique challenges, including the need to:

Quantify and improve the impact of their grants;  
Cultivate better relationships with grantees;  
Achieve better internal collaboration and alignment with board members, reviewers, and other stakeholders;  
Illustrate the impact of their corporate philanthropy efforts to the communities they serve;  
Engage employees in meaningful volunteering, giving and other activities;  
Ensure that their philanthropic efforts align with their business initiatives;  
Manage all of a foundation's activities, including fundraising and accounting;  
Expand the reach of their fundraising efforts; and  
Cultivate new and existing donors.

Strategy

Our objective is to maintain and extend our position as a leading provider of software and services for the global social good community, supporting their missions from fundraising to outcomes. Our key strategies for achieving this objective are to:

Delight our customers

We intend to make our customers' experience with us effective, efficient and satisfying from their initial interest in our solutions and services, through their decision to purchase, engage with customer support and utilize solution enhancements. We continue to focus on initiatives aimed at improving the consistency and quality of user experience across the offerings we provide to our customers. We continue to evolve the manner in which we package and sell our offerings to provide high quality and value combined with flexibility to meet the different needs of our existing and prospective customers. For example, we have increased the number of our cloud solutions sold under a subscription pricing model, which can make it easier for customers to purchase our solutions. In addition, we are continuing to integrate value-adding capabilities such as payment processing, analytics and business intelligence into our suite of solutions to better address our customers' needs with comprehensive offerings. We will continue to focus on providing the highest level of solution support, enhancing our existing solutions and developing new solutions and services designed to help our customers to be more effective and achieve their missions.

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### Execute on our Four-Point Growth Strategy

Our long-term aspirational financial goals include accelerating organic revenue growth, expanding our operating margins and increasing our operating cash flows. In 2014, we introduced and began executing on a five-point growth strategy targeted to achieve those goals and to drive an extended period of quality enhancement, solution and service innovation, and increasing operating efficiency and financial performance. During 2016, the strategy evolved to account for progress to date resulting in the combination of Streamline Operations and Execute our 3-Year Margin Improvement Plan into a new initiative to Improve Operating Efficiency. Our updated strategy is as follows:

#### 1. Integrated and Open Solutions in the Cloud

We will continue to transition our business to predominantly serve customers through a subscription-based cloud delivery model, enabling lower cost of entry, greater scalability and lower total cost of ownership to our customers. There is a concerted effort underway to optimize our portfolio of solutions and integrate powerful capabilities — such as built in data, analytics, payment processing and tailored user-specific experiences — to bring even greater value and performance to our customers.

During 2016, we further expanded certain of our pre-integrated services through the general release of SKY Reporting™, beginning with Raiser's Edge NXT. SKY Reporting provides new business intelligence and reporting tools aimed at seamlessly delivering valuable insights and productivity enhancing capabilities to customers. We also announced the general release of SKY API, a key component of Blackbaud SKY™, which is our new, innovative cloud technology architecture for the global social good community that now powers six of our next generation solutions. SKY API allows customers, partners, and application developers to extend functionality and integrate with our solutions. For example, we announced the integration of Raiser's Edge NXT with the salesforce platform through our SKI API's.

We acquired Attentive.ly, a cloud software provider that provides social media capabilities allowing organizations to conduct social listening, identify key influencers and drive engagement through its cloud solution. This acquisition accelerates our ability to deliver these capabilities to our customers by integrating Attentive.ly technology into Blackbaud SKY.

We also made several portfolio announcements, ranging from solution integrations, to new capabilities for existing solutions, to new solution introductions.

#### 2. Drive Sales Effectiveness

We are making investments to increase the effectiveness of our sales organization, with a focus on enabling our expanding sales teams with the talent, processes, and tools to accelerate our revenue growth and improve effectiveness. Our customer success program separates account management from the sales organization, and is intended to drive customer loyalty and retention.

In early 2016, we launched a value added reseller ("VAR") program. We continued to make investments in our sales, marketing and customer success organizations and improved our market coverage by deploying these resources into key markets like Toronto, where we opened a new office. In addition, we are continuing to optimize our go-to-market sales strategies such as offering solutions and services tailored to the needs of customers operating within vertical markets including K-12 private schools, foundations, higher education and healthcare institutions, among others.

#### 3. Expand TAM into Near Adjacencies with Acquisitions and Investments

We will continue to evaluate compelling opportunities to acquire companies, technologies and/or services. We will be guided by our acquisition criteria for considering attractive assets that expand our total addressable market ("TAM"), provide entry into new and near adjacencies, accelerate our shift to the cloud, accelerate revenue growth, are accretive to margins and present synergistic opportunities.

#### 4. Improve Operating Efficiency

We have largely completed the installations of best-in-breed back-office solutions that consolidate and standardize our business operations utilizing scalable tools and systems. Our focus is now shifting towards optimizing those systems, as well as operational excellence and quality initiatives focused on streamlining processes to gain efficiency and scalability. In 2014, we implemented a 3-year operating margin improvement plan designed to increase our



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operating effectiveness and efficiency and improve non-GAAP operating margins 300 to 600 basis points on a constant currency basis from our 2014 baseline of 17.5%, by the time we exit 2017.

Attract Top Talent and Actively Engage Employee Base

Our customer's passion is our purpose, and we have incredible customers whose missions make the world a better place for all of us. Driven by this purpose, our employees come to work every day knowing they can make a real difference with our customers, and thus the world. Collaboration, innovation and high standards are core to our culture and help enable the great work we do. We strive to hire the best employees and provide a workplace where their talents and potential are realized. Our employees' engagement is a focus of every leader at Blackbaud, and we continually work to understand what matters and to make our workplace better. We believe people with a passion for purpose can join our team and have a unique career experience. Our leaders are committed to our employees' personal and career development and continually work to improve the training and tools provided to their teams.

Build our Reputation as an Industry Thought Leader

In our 35 years of experience in the philanthropic market, we have gained significant insight into the market and industry segments in which we operate. We produce a wide range of thought leadership materials, including blogs, monthly indices and white papers, which provide insights and guidance to the social good community. We also participate in a number of industry forums where we exchange views and engage with industry and governmental leaders. Our annual user conference, bbcon™, is used in part as a forum to offer thought leadership to our customers, as well as other market specific user conferences such as our annual K-12 conference. We intend to expand these activities and further build our reputation as a thought leader within the industry.

Operating Structure

The markets we serve are very diverse, with organizations that range from small, local charities to large, multinational relief organizations. The needs of our customers can vary greatly according to their size and function. To better serve our customers' unique and wide-ranging operations, we organize our operating structure into three operating units: the General Markets Business Unit (the "GMBU"), the Enterprise Customer Business Unit (the "ECBU") and the International Business Unit (the "IBU").

Following is a description of each of our operating units, each of which is a reportable segment for financial accounting purposes:

• The GMBU is focused on marketing, sales, delivery and support to all emerging and mid-sized prospects and customers in North America.

• The ECBU is focused on marketing, sales, delivery and support to large and/or strategic prospects and customers in North America.

• The IBU is focused on marketing, sales, delivery and support to all prospects and customers outside of North America.

Each operating unit contains specialized sales, services, support, marketing and finance functions. This structure has allowed us to be more responsive to the needs of fundamentally different customer segments and to focus on developing solutions appropriate for these unique markets while leveraging the infrastructure of our broader organization and shared technology in a cost-effective manner.

During 2016, we generated revenue in three reportable segments (the GMBU, the ECBU and the IBU) and in four geographic regions (United States, Canada, Europe and Australia), as described in more detail in Note 16 of our consolidated financial statements. It is impracticable for us to identify our total assets by segment.

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Summarized below is our percentage of total revenue for each of our principal solution and service groups:  
Percentage of Total Revenue

Years ended December 31,

	2016	2015	2014
Subscriptions	58.7 %	52.0 %	46.7 %
Maintenance	20.1 %	24.1 %	26.1 %
Services	19.1 %	20.8 %	22.7 %

**Solutions and Services**

We offer a full spectrum of cloud and on-premise solutions as well as a resource network that empowers and connects organizations of all sizes. Blackbaud's portfolio of software and services support nonprofit fundraising and relationship management, digital marketing, advocacy, accounting, payments and analytics, as well as grant management, corporate social responsibility ("CSR"), and education. We offer the social good community complete solutions to advance their missions with the market-leading constituent relationship management ("CRM") system and online engagement platforms, backed by our analytic services, which deliver insights powered by the world's most robust philanthropic data set. In most cases, the core of our solution portfolio centers around a CRM system, which seamlessly integrates with other applications to help our customers conduct activities vital to advancing their missions, such as managing finances, analyzing prospects and market data, effectively communicating with current and prospective supporters and promoting their cause online and offline. Our solutions can be combined with a range of consulting, training and professional services, maintenance and technical support as well as payment processing, analytic and business intelligence services. In addition, we offer solutions that stretch across the spectrum of giving activities, including CSR programs, grant management, employee involvement, foundation management and other philanthropic activities.

We provide solutions and services in the following areas that address many of the technological and business process needs of our customers:

- Fundraising & Relationship Management;
- Analytics & Business Intelligence;
- Communication & Marketing;
- Finance & Operations;
- K-12 Private Schools;
- Arts and Cultural;
- Customer Success;
- Customer Support and Maintenance;
- Payment Processing;
- Professional Services;
- Training; and
- CSR.

**Fundraising and Relationship Management**

Raiser's Edge NXT is our flagship smart cloud fundraising and relationship management solution. Raiser's Edge NXT is the first and only cloud fundraising and relationship management solution that is all-inclusive, fully integrated with data, analytics, payment processing and tailored user-specific experiences. Leveraging Blackbaud SKY, our modern, integrated and open cloud, it is, we believe, the most advanced technology available that enables nonprofits to operate more efficiently and raise more support for their missions.

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Blackbaud CRM™, also known informally as Enterprise CRM, is a comprehensive, customizable fundraising and relationship management solution. It is our lead offering for enterprise-level organizations seeking a powerful, yet adaptable solution for fundraising, marketing, and program management across the engagement lifecycle, specializing in supporting sophisticated major giving, membership and high volume direct marketing programs. Blackbaud CRM helps organizations build deeper and more personalized relationships with constituents, build their brand through online engagement and multichannel communication tools, and more effectively fundraise, leveraging campaign management, business intelligence and analytics. Blackbaud CRM can be sold as an integrated solution with our enterprise online solutions to enable multichannel marketing, online engagement and event fundraising.

Luminate CRM™ is our Salesforce-based CRM offering for nonprofits and is sold as a single integrated solution with Luminate Online. Luminate CRM is built on the Salesforce.com cloud computing application platform and offers nonprofits an extensible suite via the Salesforce App Exchange for consolidating information and business processes into one system. The core components of Luminate CRM are campaign management, constituent relations, business intelligence and analytics. When combined with Luminate Online, it provides best-in-class functionality to help nonprofits with online fundraising, peer-to-peer event fundraising, payment processing, email marketing, advocacy and website management.

eTapestry™ is a simple, cloud fundraising and donor management solution built specifically for smaller, developing nonprofits in need of a cloud solution to support basic fundraising needs. It offers nonprofit organizations a cost-effective way to manage donors, process gifts, create reports, accept online donations and communicate with constituents. This technology provides a system that is simple to maintain, efficient to operate and is intuitively easy to learn without extensive training.

everydayhero™ is an innovative, cloud crowdfundraising solution designed to meet the peer-to-peer fundraising needs of nonprofits' supporters. It is a leading donor acquisition tool, and helps nonprofits connect with a younger, more online-focused generation of donors, a first step in helping nonprofits develop long-term relationships with their supporters. Founded in Australia, where it is a market leader, everydayhero is now sold throughout Europe and the U.S. With recent integrations with fitness applications such as Strava and MapMyFitness, everydayhero continues to enhance the fundraising landscape by providing millions across the globe the chance to easily integrate fitness and philanthropy.

### **Analytics & Business Intelligence**

Our analytics offerings provide comprehensive solutions for donor acquisition, prospect research, data enrichment, and performance management, enabling nonprofits to define effective campaign strategies and maximize fundraising results. These services either integrate with or are already integrated into our software solutions to give our customers a comprehensive view of their supporters and the market and provide information essential to making well-informed operating decisions.

Our analytics offerings include subscription solutions and services within the following areas:

**Donor Acquisition** - Our donor acquisition solutions leverage unique data assets to create acquisition mailing lists and predictive models that identify donor populations that meet the affinity, value and response criteria of our nonprofit customers. Nonprofit organizations use our prospect lists to solicit gifts and other support.

**Prospect Research** - Our prospect research solutions include: custom data modeling that delivers critical information on a prospect's likelihood to make a gift to an organization; wealth screenings that deliver detailed wealth information and giving capacity data on prospects; and web-based prospect management software that combines public data with donor information from a nonprofit's database to build a complete view of prospects for targeting and securing gifts.

**Data Enrichment** - Our data enrichment solutions enhance the quality of the data in our customers' databases. These solutions include: identifying outdated address files in the database and making corrections based on United States Postal Service data, as well as appending data by using known fields in an organization's constituent records to search and identify key demographic and contact information.

**Performance Management** - Our performance management solutions create relevant and insightful reports that benchmark performance and illustrate key industry trends based on performance attributes provided by our nonprofit

customers. Nonprofit organizations use our performance and industry analysis reports to assess marketing and operational effectiveness and also to influence operational planning.

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### Blackbaud, Inc.

#### Communications & Marketing

Luminate Online™, delivered in the cloud, helps our customers better understand their online supporters, make the right ask at the right time, and raise money online. It includes tools to build online fundraising campaigns as part of an organization's existing website or as a stand-alone fundraising site. Donation forms, gift processing, and tools for communicating through web pages and email give our customers the essentials for building sustainable donor relationships. Customers can also purchase additional modules including TeamRaiser, a solution within events management that allows nonprofits' constituents to create personal or team fundraising web pages and send email donation appeals in support of events such as a walks, runs and rides.

Blackbaud Online Express™ is a simple, cloud fundraising and marketing tool designed for smaller nonprofit organizations using Raiser's Edge. It provides nonprofits with easy-to-use features and functionality such as email marketing, donation forms, event registrations, and dashboard metrics.

Blackbaud NetCommunity™ is an online marketing and communications tool that enables organizations that utilize Raiser's Edge software to build interactive websites and manage email marketing campaigns. With Blackbaud NetCommunity, organizations can, among other things, establish online communities for social networking among constituents and also provide a platform for online giving, membership purchases and event registration. Because Blackbaud NetCommunity requires a Raiser's Edge database to operate, it can only be sold with Raiser's Edge or to existing Raiser's Edge customers.

#### Finance & Operations

Financial Edge NXT became generally available in September 2015 and is the first-of-its-kind cloud accounting solution for nonprofits that is intuitive, fully integrated, and built the way nonprofits need it on our modern Blackbaud SKY technology architecture. Financial Edge NXT is advanced technology with powerful reporting tools to help accounting teams drive transparency, stewardship, and compliance while enabling them to seamlessly manage transactions and eliminate manual processes. It seamlessly integrates with Raiser's Edge NXT to simplify gift entry processing and relates information from both systems in an informative manner to eliminate redundant tasks and manual processes. Financial Edge NXT provides nonprofit organizations with the means to help manage fiscal and fiduciary responsibility, enabling them to be more accountable to their constituents.

GIFTS Online™ is a cloud solution built with core functions that provide comprehensive grant making capabilities, but with many additional capabilities and features, such as visual dashboards. It has a modern user interface, is user friendly, and can be highly personalized.

FIMS™ is an on-premise, fully-integrated foundation management system that helps community foundations, faith-based organizations and education and scholarship programs manage grants, finances and donors in one centralized, comprehensive system. It features an open, customizable framework that helps community foundations manage everything from donors, gifts and investments to grants, grantees, funds and financials. We also offer FIMS as a fully hosted solution.

Blackbaud Outcomes™ empowers funders and nonprofits to collaborate around their intended program outcomes and work together to achieve impact. The cloud software helps users define and measure their outcomes, allowing them to track the effectiveness of their programs, make informed decisions, better understand the impact of their social investments, and tell an impact story using ROI-focused results and a common outcomes measurement language.

#### K-12 Private Schools

onMessage™ is a content management system that gives schools the flexibility to build and edit webpages, with easy access to content types including photos, videos, downloads, text and more. It allows users to share material and contribute content across an entire school community.

onRecord™ makes it easy for schools to manage schedules, transcripts and GPAs. A new Student Information System that works directly with onCampus (LMS), onRecord simplifies the process of sharing student data and academic records securely.



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onCampus™ is a learning management system that makes it easy to manage, connect, and share information with students, parents, and an entire school community. Developed with direct input from our customers, onCampus gives teachers the tools to meet the demands of a modern private school.

onBoard™ is an enrollment management system that simplifies a school's admissions process. onBoard helps admissions teams and prospective families manage and track their progress, from inquiry and application through acceptance and enrollment.

Smart Tuition™ benefits schools by giving administrators better access to financial data and payment services, and by giving parents more ways to remit tuition payments. The solution helps ease the burden for administrative staff by offering invoicing, payment processing, customer service, enhanced communication with parents and later payer follow-up services.

Smart Aid™ offers schools the ability to accept online, customized applications for financial aid and to make better financial aid decisions with a proprietary Hobbies, Interest and Lifestyles ("HIL") profile. The HIL profile provides in-depth information on an applicant, delivering to the school a way to make more informed decisions on how they distribute financial aid awards.

### Arts & Cultural

Altru™ is a cloud solution that helps arts and cultural organizations consolidate admissions, membership, fundraising, merchandise, marketing and more, giving users a comprehensive view of their supporters. By helping general admissions arts and cultural organizations gain a clear, 360-degree view of their organization, it enables them to operate more efficiently, engage and cultivate patrons and supporters, streamline external and internal communication efforts, and reduce IT costs. It contains tools for constituent and membership management, program sales, retail sales and ticketing, volunteer management, and events management. It also has sophisticated reporting functionality and tools to manage marketing, communications and fundraising.

### Customer Success

Our Customer Success organization is responsible for managing the business and technical relationship with our customers. Their mission is to develop and foster relationships within all levels of the customer organization to build more demonstrated value in our solutions and services. Customer Success Managers ("CSMs") work to proactively communicate to drive overall satisfaction and retention of our customer's business. At every point of communication, they work to collect and analyze actionable information that can be used to make their experience positive and consistent. Their goal is to partner with customers to ensure that they are fully engaged and have an advocate within Blackbaud who works to meet their needs. CSMs bring industry knowledge and expertise to the customer relationship and strive to help our customers achieve positive growth and outcomes.

### Customer Support & Maintenance

Most customers that purchase our solutions also enroll in one of our support and maintenance programs. For many of our cloud-based subscription solutions, customer support is automatically included as part of the solution. Customers enrolled in the programs enjoy fast, reliable customer support, receive regular software updates, stay up-to-date with regular communication and have unlimited, around-the-clock access to support resources, including our extensive knowledgebase and forums. Customers who enroll in upgraded support and maintenance plans receive enhanced benefits such as call support priority and dedicated support resources.

### Payment Processing

Our solutions provide our customers payment processing capabilities that enable their donors to make donations and purchase goods and services using numerous payment options, including credit card and automated clearing house ("ACH") checking transactions, through secure online transactions. Blackbaud Merchant Services is a value-added service integrated with our solutions that makes credit card processing simple and secure. Customers are charged one rate for credit card transactions, with no extra fees, making Blackbaud Merchant Services a competitive option. The service also provides customers with a payment card industry ("PCI") compliant process and streamlined bank reconciliation. As discussed above, we also provide our K-12 private school customers with student tuition payment processing services.



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Blackbaud, Inc.

### Professional Services

Our consultants provide data conversion, implementation and customization services for each of our software solutions. These services include:

- System implementation;
- Data conversion, business process analysis and application customization;
- Database merging and enrichment, and secure credit card transaction processing;
- Database production activities; and
- Website design services.

In addition, we apply our industry knowledge and experience, combined with expert knowledge of our solutions, to evaluate an organization's needs and consult on how to improve a business process.

### Training

We provide a variety of onsite, instructor-led online and on-demand training services to our customers relating to the use of our solutions and application of best practices. Our instructors have extensive training in the use of our solutions and present course material that is designed to include hands-on lab exercises, as well as course materials with examples and problems to solve.

### Corporate Social Responsibility

AngelPoints™ is an integrated CSR solution that helps corporations mobilize the collective power of their employees to make a positive impact on their people, their company, and the world. AngelPoints contains modules that help companies manage employee volunteer and giving programs.

### Customers

At the end of 2016, we had approximately 35,000 customers including nonprofits, K-12 private and higher education institutions, healthcare organizations, foundations and other charitable giving entities, and corporations. Our largest single customer accounted for approximately 1% of our 2016 consolidated revenue.

### Sales and Marketing

The majority of our solutions and related services are sold through our direct sales force. Our direct sales force is complemented by a team of account development representatives responsible for sales lead generation and qualification. These sales and marketing professionals are located throughout the United States, the United Kingdom, Canada, Australia and New Zealand. We had 399 and 364 direct sales employees as of December 31, 2016 and 2015, respectively. We plan to continue expanding our direct sales force in the Americas, Europe, Australia and New Zealand as our operations grow internationally and market demand increases.

We generally begin a customer relationship with the sale of one of our cloud solutions, such as Raiser's Edge NXT or Luminate, and then offer additional solutions and services to the customer as the organization's needs increase. We conduct marketing programs to create brand recognition and market awareness for our solutions and services. Our marketing efforts include participation at tradeshow, technical conferences and technology seminars, publication of technical and educational articles in industry journals and preparation of competitive analyses. Our customers and strategic partners provide references and recommendations that we often feature in our advertising and promotional activities.

We believe relationships with third parties can enhance our sales and marketing efforts. We have and will continue to establish additional relationships with companies that provide services to the nonprofit industry, such as consultants, educators, publishers, financial service providers, complementary technology providers and data providers. These companies promote or complement our nonprofit solutions and provide us access to new customers.

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### Blackbaud, Inc.

#### Corporate Philanthropy and Volunteerism

Blackbaud operates under a fundamental belief that the world would be better if good took over. The company is an active participant in the ecosystem of good, working to drive positive change both through what we do as a business and how we serve individually. We offer an array of philanthropy programs aimed at engaging our employees as agents of good, including matching gifts, competitive grants that honor excellent examples of volunteerism, employee-led grants committees, skills-based volunteerism initiatives, as well as science, technology, engineering and mathematics focused community programs. Blackbaud attracts people who are committed to service, with 86% saying our focus on nonprofits was a driver in their decision to join the company, 85% actively serving as volunteers and 25% serving on a nonprofit board or committee.

#### Competition

The market for software and related services in the nonprofit sector is competitive and highly fragmented. For certain areas of the market, entry barriers are low, as general tools for small businesses can usually be configured to manage the most basic marketing, contact management, and accounting needs of nonprofits. However, once basic needs are met, programs unique to nonprofits like fundraising, gift and grant management, and peer-to-peer activism require highly specialized tools that are more complex to build or customize out of general business software. Moreover, because nonprofits rely heavily on relationships with and among their supporters, integration of these systems drives value beyond mere efficiency. Hence, we believe our experience, the full spectrum of our current solutions and our ability to deliver on future solutions makes us a strong competitor. We expect to continue to see new competitors as the market matures and nonprofit organizations rely more heavily on technology to manage emerging revenue channels and increasingly complex operations.

Our competition falls into three primary categories: (1) niche products that are tailored to specialized needs; (2) vertical-specific solutions; and (3) general business software that can be configured to manage some nonprofit-specific processes.

Niche products are usually developed as a solution for a single problem at an organization and are adopted by similar organizations to solve a specialized need. These are typically offered by vendors who may have deep industry expertise but may not have the resources to expand beyond a specialized area. We believe we compete against these solutions by offering a set of integrated solutions rather than a single point solution, which we believe improves the overall customer experience. In addition, our open platform allows integration to specialized applications so the opportunity for disruption from these competitors is minimized.

Vertical-specific solutions are offered by competitors seeking to meet the enterprise-wide needs of a specific sub-segment of nonprofits. Typically, these solutions are offered by vendors who may offer either a point solution or integrated suite of products used by a vertical. We believe we compete successfully against these competitors through a combination of our integrated suite of offerings within verticals where we compete, offering solutions with market leading robustness as well as the scale, reach, and reputation of our organization.

General business software vendors such as Microsoft, Salesforce.com and Oracle, compete with us in certain areas of our business. However, they generally do not have nonprofit specific focus and, therefore, do not offer or intend to offer nonprofit-specific versions. As these products are also not easily customized, the adoption of general business software is limited to nonprofits with very basic operations and simple needs. We believe our solutions compete successfully against general business software as a nonprofit's needs grow more complex. There is a subset of general business software competitors who have introduced nonprofit-specific versions of their products. We believe that because these products were not originally designed to support the specific needs of nonprofits, they are not yet capable of meeting market needs without significant customization. As a result, we believe we are able to compete successfully to meet nonprofit-specific requirements, often integrating with general business platforms used for their more generalized operations.

Less frequently, we compete with providers of traditional, non-automated fundraising service providers, including parties providing services in support of traditional direct mail or email campaigns, special events fundraising, peer to peer, telemarketing and personal solicitations. We believe we compete successfully against these traditional

fundraising service providers, primarily because our solutions and services are more automated, more robust, more tailored to the needs of nonprofit organization and more efficient.

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Blackbaud, Inc.

### Research and Development

We have made substantial investments in research and development and expect to continue to do so as a part of our strategy to introduce additional innovative solutions and services. As of December 31, 2016, we had 648 employees working on research and development. Our research and development expenses for 2016, 2015 and 2014 were \$89.9 million, \$84.6 million and \$77.2 million, respectively. In addition, we had cash outlays for qualifying capitalized software development costs during 2016, 2015 and 2014 of \$26.4 million, \$15.5 million and \$8.5 million, respectively. We plan to continue significantly investing in the innovation of our portfolio of solutions and services.

### Technology and Architecture

Our new cloud technology, SKY, combines the latest in cloud infrastructure, leading edge development processes, and a micro service oriented architecture to deliver our next generation solutions, the first of which were Raiser's Edge NXT and Financial Edge NXT. One component of SKY, SKY API, gives customers, partners and other application developers access to industry-standard, open, Representational State Transfer (or REST) APIs and a comprehensive set of resources that enable them to customize, integrate or extend functionality of our solutions. Additionally, SKY UX, our open source user experience framework, increases the reach of our solutions by enabling developers to create interfaces that look and feel like ours by using the same user experience foundation as our engineers. SKY is now the foundation for Blackbaud's next generation solutions including Raiser's Edge NXT, Financial Edge NXT, Blackbaud Outcomes and the next generation of Luminate Online.

Other solutions, such as Blackbaud CRM, are built on the Microsoft.Net framework platform. These solutions are web-delivered applications utilizing an architecture built on internet standards and protocols such as HTTP, XML and SOAP. This architecture is designed to support on-premise and hosted application deployment scenarios. The applications expose web service application programming interfaces so that functionality and business logic can be accessed programmatically from outside the context of an interactive user application. Blackbaud CRM also leverages some of the SKY components.

Each of our Luminate solutions, including Luminate Online, Luminate CRM and TeamRaiser, are cloud-based applications that are open and extensible and employ a multi-tenant architecture requiring only a web browser for customer access. Luminate Online and TeamRaiser share a common codebase and database, and are built on the Java runtime environment. Luminate CRM is built on the Salesforce.com platform.

Regardless of solution choice, our development strategies are designed to be:

**Flexible.** Our component-based architecture is programmable and easily extended by our customers without requiring modification of the source code, ensuring that the technology can be extended to accommodate changing demands of our customers and the market.

**Adaptable.** The architecture of our applications allows us to easily add features and functionality or to integrate with third-party applications in order to adapt to our customers' needs or market demands.

**Scalable.** We combine a scalable architecture with the performance, capacity and load balancing of industry-standard web servers and databases used by our customers to ensure that the applications can scale to the needs of larger organizations.

We will continue to license technologies from third parties that are integrated into certain of our solutions.

### Intellectual Property and Other Proprietary Rights

To protect our intellectual property, we rely on a combination of patent, trademark, copyright, and trade secret laws in various jurisdictions, as well as employee and third-party nondisclosure agreements and confidentiality procedures.

We have a number of registered trademarks, including "Blackbaud," "Raiser's Edge NXT" and "Luminate." We have applied for additional trademarks. We currently have three active patents on our technology, and have a total of three pending patent applications.

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## Blackbaud, Inc.

## Employees

As of December 31, 2016, we had 3,156 employees, none of which are represented by unions or are covered by collective bargaining agreements. We are not involved in any material disputes with any of our employees, and we believe that relations with our employees are satisfactory.

## Seasonality

For a discussion of seasonal variations in our business, see “Management’s discussion and analysis of financial conditions and results of operations — Seasonality” in Item 7 in this report.

## Financial Information about Geographic Areas

For information about revenues by geographic region and long-lived assets by geographic region, please see Note 16 to our consolidated financial statements in this report. For a description of risks associated with our non-U.S. operations, please see “Risk Factors - If we do not successfully address the risks inherent in the expansion of our international operations, our business could suffer” in Item 1A in this report.

## Working Capital

For a discussion of our working capital practices, see “Management’s Discussion and Analysis of Financial Conditions and Results of Operations — Liquidity and Capital Resources” in Item 7 in this report.

## Available Information

Our website address is [www.blackbaud.com](http://www.blackbaud.com). We make available, free of charge through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC, but other information on our website is not incorporated into this report. The SEC maintains an Internet site that contains these reports at [www.sec.gov](http://www.sec.gov). The public may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

## Executive Officers of the Registrant

The following table sets forth information concerning our executive officers as of February 15, 2017:

Name	Age	Title
Michael P. Gianoni	56	President and Chief Executive Officer
Anthony W. Boor	54	Executive Vice President and Chief Financial Officer
Charles T. Cumbaa <sup>(1)</sup>	64	Executive Vice President of Corporate and Product Strategy
Kevin W. Mooney	58	Executive Vice President and President, General Markets Business Unit
Brian E. Boruff	57	Executive Vice President and President, Enterprise Customer Business Unit
John J. Mistretta	61	Executive Vice President of Human Resources

In May 2016, we announced that Mr. Cumbaa will retire from the Company effective March 31, 2017. In the (1) interim, Mr. Cumbaa will continue in his current position and will assist management with the transition of his responsibilities.

Michael P. Gianoni joined us as President and Chief Executive Officer in January 2014. Prior to joining us, he served as Executive Vice President and Group President, Financial Institutions at Fiserv, Inc., a global technology provider serving the financial services industry, from January 2010 to December 2013. He joined Fiserv as President of its Investment Services division in December 2007. Mr. Gianoni was Executive Vice President and General Manager of CheckFree Investment Services, which provided investment management solutions to financial services organizations, from June 2006 until December 2007 when CheckFree was acquired by Fiserv. From May 1994 to November 2005, he served as Senior Vice President of DST Systems Inc., a global provider of technology-based service solutions. Mr. Gianoni is a member of the Board of Directors of Teradata Corporation, a publicly traded global big data analytics and marketing applications company.



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Blackbaud, Inc.

Mr. Gianoni has served on several nonprofit boards across several segments, including relief organizations, hospitals, and higher education. He currently is a board member of the International African American Museum. He holds an AS in electrical engineering from Waterbury State Technical College, a BS with a business concentration from Charter Oak State College, and an MBA and an honorary Doctorate, from the University of New Haven.

Anthony W. Boor joined us as Executive Vice President and Chief Financial Officer in November 2011 and served as our interim President and Chief Executive Officer from August 2013 to January 2014. Prior to joining us, he served as an executive with Brightpoint, Inc., a global provider of device lifecycle services to the wireless industry, beginning in 1999, most recently as its Executive Vice President, Chief Financial Officer and Treasurer. He also served as the interim President of Europe, Middle East and Africa during Brightpoint's significant restructuring of that region. Mr. Boor served as Director of Business Operations for Brightpoint North America from August 1998 to July 1999. Prior to joining Brightpoint, Mr. Boor was employed in various financial positions with Macmillan Computer Publishing, Inc., a Viacom owned book publishing company specializing in computer hardware and software related topics, Day Dream Publishing, Inc., a publishing company specializing in calendars, posters and time management materials, Ernst & Young LLP, an accounting firm, Expo New Mexico, a state-owned fair and expo grounds and live pari-mutual horse racing venue, KPMG LLP, an accounting firm, and Ernst & Whinney LLP, an accounting firm. He holds a BS in Accounting from New Mexico State University.

Charles T. Cumbaa has served as our Executive Vice President of Corporate and Product Strategy since May 2012. He joined us in May 2001 and served as Senior Vice President of Products and Services until December 2009. He also served as our President, Enterprise Customer Business Unit from January 2010 to April 2012. Prior to joining us, Mr. Cumbaa was Executive Vice President with Intertech Information Management, a provider of document management solutions, from December 1998 until October 2000. From 1992 until 1998, he was President and Chief Executive Officer of Cognitech, Inc., a software company he founded. From 1984 to 1992 he was Executive Vice President of Sales and Services at Sales Technologies, a sales force automation company. Prior to that, he was employed by McKinsey & Company, a consulting firm. Mr. Cumbaa holds a BA from Mississippi State University and an MBA from Harvard Business School.

Kevin W. Mooney has served as our Executive Vice President and President, General Markets Business Unit since January 2010. He joined us in July 2008 as our Chief Commercial Officer. Before joining Blackbaud, Mr. Mooney was a senior executive at Travelport GDS from August 2007 to May 2008. As Chief Commercial Officer of Travelport GDS, one of the world's largest providers of information services and transaction processing to the travel industry, Mr. Mooney was responsible for global sales, marketing, training, service and support activities. Prior to that he was Chief Financial Officer for Worldspan from March 2005 until it was acquired by Travelport in August 2007. Mr. Mooney has also held key executive positions in the telecommunications industry and he is a member of the Board of Directors of Level 3 Communications, Inc., a publicly traded global managed network services company. Mr. Mooney graduated from Seton Hall University and holds an MBA in Finance from Georgia State University.

Brian E. Boruff joined us as our Executive Vice President and President, Enterprise Customer Business Unit in May 2015. Prior to joining us, Mr. Boruff was the Vice President of Products, Platforms and Solutions at Infosys, a global provider of consulting technology and next-generation services, from June 2013 until April 2015. From May 2011 until June 2013 he was a Managing Director of Accenture, a global management consulting and technology services company. From January 2009 until May 2011, Mr. Boruff was the Global Vice President of Cloud Computing and Emerging Technologies at CSC, a global provider of information technology services and solutions. Prior to that, Mr. Boruff spent 15 years at Microsoft, a platform and productivity company, from July 1993 until September 2008 where he held various domestic and international executive roles as well as client-facing software sales and services roles. Mr. Boruff holds a BA in Computer Science and Biochemistry from the University of Tennessee.

John J. Mistretta joined us as our Executive Vice President of Human Resources in August 2005. Prior to joining us, Mr. Mistretta was an Executive Vice President of Human Resources and Alternative Businesses at National Commerce Financial Corporation, a financial services company, from 1998 to 2005. Earlier in his career, Mr. Mistretta held various senior Human Resources positions over a thirteen-year period at the banking firm Citicorp.

He also serves as a board member for YEScarolina, a local nonprofit dedicated to teaching youth the principles of entrepreneurship and free enterprise. Mr. Mistretta holds a MS in Counseling and a BA in Psychology from the State University of New York at Oswego.

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Blackbaud, Inc.

ITEM 1A. RISK FACTORS

Our business operations face a number of risks. These risks should be read and considered with other information provided in this report.

Our failure to compete successfully could cause our revenue or market share to decline.

Our market is highly competitive and rapidly evolving and there are limited barriers to entry for some aspects of this market.

The companies we compete with and other potential competitors may have greater financial, technical and marketing resources and generate greater revenue and better name recognition than we do. Also, a large diversified software enterprise could decide to enter the market directly, including through acquisitions. Competitive pressures can adversely impact our business by limiting the prices we can charge our customers and making the adoption and renewal of our solutions more difficult.

Our competitors might also establish or strengthen cooperative relationships with resellers and third-party consulting firms or other parties with whom we have had relationships, thereby limiting our ability to promote our solutions.

These competitive pressures could cause our revenue and market share to decline.

Because a significant portion of our revenue is recognized ratably over the terms of the contract, downturns in sales may not be immediately reflected in our revenue.

We recognize our maintenance and subscriptions revenue monthly over the term of the customer agreement. Most of our maintenance arrangements are for a one-year term. Our subscription arrangements are typically either for a one-year term or a three-year term. As a result, much of the revenue we report in each quarter is attributable to arrangements entered into during previous quarters. Consequently, a decline in sales to new customers, renewals by existing customers or market acceptance of our solutions in any one quarter will not necessarily be fully reflected in the revenues in that quarter and will negatively affect our revenues and profitability in future quarters.

If our customers do not renew their annual maintenance and support arrangements or subscriptions for our solutions or if they do not renew them on terms that are favorable to us, our business might suffer.

Most of our maintenance arrangements are for a one-year term. Our subscription arrangements are typically either for a one-year term or a three-year term. As the end of the annual period approaches, we seek the renewal of the agreement with the customer. Historically, maintenance and subscriptions renewals have represented a significant portion of our total revenue. Because of this characteristic of our business, if our customers choose not to renew their maintenance and support arrangements or subscriptions with us on beneficial terms or at all, our business, operating results and financial condition could be harmed. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with our solutions and services and their ability to continue their operations and spending levels.

Defects, delays or interruptions in our cloud-based solutions and hosting services could diminish demand for these services and subject us to substantial liability.

We currently utilize data center hosting facilities to provide cloud-based solutions to some of our subscription customers and hosting services to our on-premise license customers. Any damage to, or failure of, our data center systems generally could result in interruptions in service to our customers, notwithstanding any disaster recovery agreements that may currently be in place at these facilities. Because our cloud-based solutions and hosting service offerings are complex, and we have incorporated a variety of new computer hardware and software systems at our data centers, our services might have errors or defects that users identify after they begin using our services. This could result in unanticipated downtime for our customers and harm to our reputation and business. Internet-based services sometimes contain undetected errors when first introduced or when new versions or enhancements are released. We have from time to time found defects in our web-based services and new errors might again be detected in the future. In addition, our customers might use our Internet-based offerings in unanticipated ways that cause a disruption in service for other customers attempting to access their data.



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Because our customers use these services for important aspects of their businesses, any defects, delays or disruptions in service or other performance problems with our services could hurt our reputation and damage our customers' businesses. If that occurs, customers could elect to cancel their service, delay or withhold payment to us, not purchase from us in the future or make claims against us, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or the expense and risk of litigation. Any of these could harm our business and reputation.

Material defects or errors in the software we use to deliver our services could harm our reputation, result in significant costs to us and impair our ability to sell our services.

The software applications underlying our services are inherently complex and may contain material defects or errors, particularly when first introduced or when new versions or enhancements are released. We have from time to time found defects in our software, and new errors in our existing software may be detected in the future.

After the release of our software, defects or errors may also be identified from time to time by our internal team and our customers. The costs incurred in correcting any material defects or errors in our software may be substantial and could harm our operating results. Furthermore, our customers may use our software together with solutions from other companies. As a result, when problems occur, it might be difficult to identify the source of the problem. Even when our software does not cause these problems, the existence of these errors might cause us to incur significant costs, divert the attention of our technical personnel from our solution development efforts, impact our reputation and cause significant customer relations problems.

Our failure to obtain licenses for third-party technologies could harm our business.

We expect to continue licensing technologies from third parties, including applications used in our research and development activities, technologies which are integrated into our solutions and solutions that we resell. We believe that the loss of any third-party technologies currently integrated into our solutions could have a material adverse effect on our business. Our inability in the future to obtain any third-party licenses on commercially reasonable terms, or at all, could delay future solution development until equivalent technology can be identified, licensed or developed and integrated. This inability in turn could harm our business and operating results. Our use of third-party technologies exposes us to increased risks including, but not limited to, risks associated with the integration of new technology into our solutions, the diversion of our resources from development of our own proprietary technology and our inability to generate revenue from licensed technology sufficient to offset associated acquisition and maintenance costs.

The market for software and services for nonprofit, charitable giving and educational organizations might not grow and these organizations might not continue to adopt our solutions and services.

Many nonprofit organizations have not traditionally used integrated and comprehensive software and services for their nonprofit-specific needs. We cannot be certain that the market for such solutions and services will continue to develop and grow or that nonprofit organizations will elect to adopt our solutions and services rather than continue to use traditional, less automated methods, attempt to develop software internally, rely upon legacy software systems, or use software solutions not specifically designed for the nonprofit market. Nonprofit organizations that have already invested substantial resources in other fundraising methods or other non-integrated software solutions might be reluctant to adopt our solutions and services to supplement or replace their existing systems or methods. In addition, the implementation of one or more of our core software solutions can involve significant time and capital commitments by our customers, which they may be unwilling or unable to make. If demand for and market acceptance of our solutions and services does not increase, we might not grow our business as we expect.

If we are unable, or our customers believe we are unable, to detect and prevent unauthorized use of payment card information and safeguard confidential donor data, we could be subject to financial liability, our reputation could be harmed and customers may be reluctant to use our solutions and services.

The rules of payment card associations in which we participate require that we comply with Payment Card Industry Data Security Standard ("PCI DSS") in order to preserve security of payment card data. Under PCI DSS, we are required to adopt and implement internal controls over the use, storage and security of payment card data to help prevent card fraud. Conforming our solutions and services to PCI DSS or other payment services related regulations

or requirements imposed

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Blackbaud, Inc.

by payment networks or our customers or payment processing partners is expensive and time-consuming. However, failure to comply may subject us to fines, penalties, damages and civil liability, may impair the security of payment card data in our possession, and may harm our reputation and our business prospects, including by limiting our ability to process transactions. All of our solutions are currently certified as compliant with the Payment Application Data Security Standard, which is a subset of the requirements for PCI DSS. However, currently some of our solutions are not fully compliant with PCI DSS.

If the security of our software is breached, we fail to securely collect, store and transmit customer information, or we fail to safeguard confidential donor data, we could be exposed to liability, litigation, penalties and remedial costs and our reputation and business could suffer.

Fundamental to the use of our solutions is the secure collection, storage and transmission of confidential donor and end user data and transaction data, including in our payment processing business. Despite, the network and application security, internal control measures, and physical security procedures we employ to safeguard our systems, we may still be vulnerable to a security breach, intrusion, loss or theft of confidential donor data and transaction data, which may harm our business, reputation and future financial results.

A compromise of our data security that results in customer or donor personal or payment card data being obtained by unauthorized persons could adversely affect our reputation with our customers and others, as well as our operations, results of operations, financial condition and liquidity and could result in litigation against us or the imposition of penalties. We might be required to expend significant capital and other resources to protect further against security breaches or to rectify problems caused by any security breach, including notification under data privacy laws and regulations and expenses related to remediating our information security systems. Even though we carry cyber-technology insurance policies that may provide insurance coverage under certain circumstances, we might suffer losses as a result of a security breach that exceed the coverage available under our insurance policies or for which we do not have coverage. A security breach and any efforts we make to address such breach could also result in a disruption of our operations, particularly our online sales operations.

Further, the existence of vulnerabilities, even if they do not result in a security breach, may harm client confidence and require substantial resources to address, and we may not be able to discover or remedy such security vulnerabilities before they are exploited, which may harm our business, reputation and future financial results.

Privacy and data protection concerns, including evolving government regulation in the area of consumer data privacy or data protection, could adversely affect our business and operating results.

The effectiveness of our software solutions relies on our customers' storage and use of data concerning their customers, including financial, personally identifying or other sensitive data. Our customers' collection and use of this data for donor profiling, data analytics or communications outreach might raise privacy and data protection concerns and negatively impact the demand for our solutions and services. For example, our custom modeling and analytical services, including ProspectPoint, WealthPoint and donorCentrics, rely heavily on processing and using of data we gather from customers and various sources. Privacy and data protection laws could restrict or add regulatory and compliance processes to our ability to market and profit from those services.

Governments in some jurisdictions have enacted or are considering enacting consumer data privacy or data protection legislation, including laws and regulations applying to the solicitation, collection, transfer, processing and use of personal data. This legislation could reduce the demand for our software solutions if we fail to design or enhance our solutions to enable our customers to comply with the privacy and data protection measures required by the legislation. Moreover, we may be exposed to liability under existing or new consumer privacy or data protection legislation. For example, we must comply with applicable provisions of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), and might be subject to similar provisions of the Gramm-Leach-Bliley Act and related regulations. Even technical violations of these laws may result in penalties that are assessed for each non-compliant transaction.

If our customers or we were found to be subject to and in violation of any privacy or data protection laws or regulations, our business may be materially and adversely impacted and we and/or our customers would likely have to change our business practices. In addition, these laws and regulations could impose significant costs on our customers

and us and make it more difficult for donors to make online donations.

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Blackbaud, Inc.

We are in the information technology business, and our solutions and services store, retrieve, transfer, manipulate and manage our customers' information and data. The effectiveness of our software solutions relies on our customers' storage and use of data concerning their donors, including financial, personally identifying and other sensitive data and our business uses similar systems that require us to store and use data with respect to our customers and personnel. Our collection and our customers' collection and use of this data might raise privacy and data protection concerns and negatively impact our business or the demand for our solutions and services. If a breach of data security were to occur, or other violation of privacy or data protection laws and regulations were to be alleged, our business may be materially and adversely impacted and solutions may be perceived as less desirable, which would negatively affect our business and operating results.

If we fail to respond to technological changes and successfully introduce new and improved solutions, our competitive position may be harmed and our business may suffer.

The introduction of solutions encompassing new technologies can render existing solutions obsolete and unmarketable. As a result, our future success will depend, in part, upon our ability to continue to enhance existing solutions and develop and introduce in a timely manner or acquire new solutions that keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance. If we are unable to develop or acquire on a timely and cost-effective basis new software solutions or enhancements to existing solutions or if such new solutions or enhancements do not achieve market acceptance, our business, results of operations and financial condition may be materially adversely affected.

Because competition for highly qualified personnel is intense, we might not be able to attract and retain key personnel needed to support our planned growth.

To meet our objectives successfully, we must attract and retain highly qualified personnel with specialized skill sets. If we are unable to attract suitably qualified management, there could be a material adverse impact on our business.

Further, in the past, we have used equity incentive programs as part of our overall employee compensation agreements to both attract and retain personnel. A decline in our stock price could negatively impact the value of these equity incentive and related compensation programs as retention and recruiting tools. We may need to create new or additional equity incentive programs and/or compensation packages to remain competitive, which could be dilutive to our existing stockholders and/or adversely affect our results of operations.

If we do not successfully address the risks inherent in the expansion of our international operations, our business could suffer.

We currently have non-U.S. operations in Canada, the United Kingdom, Ireland, Australia and New Zealand, and we intend to expand further into international markets. Expansion of our international operations will require a significant amount of attention from our management and substantial financial resources and might require us to add qualified management in these markets. Our direct sales model requires us to attract, retain and manage qualified sales personnel capable of selling into markets outside the United States. In some cases, our costs of sales might increase if our customers require us to sell through local distributors.

If we are unable to grow our international operations in a cost-effective and timely manner, our business and operating results could be harmed. Doing business internationally involves additional risks that could harm our operating results. We expect that an increasing portion of our international revenues will be denominated in foreign currencies, subjecting us to fluctuations in foreign currency exchange rates. If we expand our international operations, exposures to gains and losses on foreign currency transactions may increase.

Acquisitions could prove difficult to integrate, disrupt our business, dilute stockholder value and strain our resources. As part of our business strategy, we have made acquisitions in the past. The successful integration of acquired companies requires, among other things, coordination of various departments, including solution development, engineering, sales and marketing and finance, as well as integration in our system of internal controls. Acquisitions and investments involve numerous risks.



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Blackbaud, Inc.

Acquisitions also frequently result in recording of goodwill and other intangible assets, which are subject to potential impairments in the future that could harm our operating results. In addition, if we finance acquisitions by issuing equity securities or securities convertible into equity securities, our existing stockholders would be diluted which, in turn, could affect the market price of our stock. Moreover, we could finance any acquisition with debt, resulting in higher leverage and interest costs. As a result, if we fail to evaluate and execute acquisitions or investments properly, we might not achieve the anticipated benefits of any such acquisition and we may incur costs in excess of what we anticipate. Furthermore, if we incur additional debt to fund acquisitions and are unable to service our debt obligation we may have a greater risk of default under our credit facility.

The success of our acquisitions will depend in part on our ability to retain their engineering, sales, marketing, development and other personnel. It is possible that these employees might decide to terminate their employment. If key employees terminate their employment, the sales, marketing or development activities of acquired companies might be adversely affected, our management's attention might be diverted from successfully integrating the acquired operations to hiring suitable replacements and, as a result, our business might suffer.

We significantly increased our leverage in connection with acquisitions.

We incurred a substantial amount of indebtedness in connection with recent acquisitions. As a result of this indebtedness, our interest payment obligations have increased. The degree to which we are leveraged could have adverse effects on our business, including the following:

- Requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions, dividends and other general corporate purposes;
  - Limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
  - Restricting us from making additional strategic acquisitions or exploiting business opportunities;
  - Placing us at a competitive disadvantage compared to our competitors that have less debt;
  - Limiting our ability to borrow additional funds; and
  - Decreasing our ability to compete effectively or operate successfully under adverse economic and industry conditions.
- If we incur additional debt, these risks may intensify. Our ability to meet our debt service obligations will depend upon our future performance, which will be subject to the financial, business and other factors affecting our operations, many of which are beyond our control.

Our balance sheet includes significant amounts of goodwill and intangible assets. The impairment of a significant portion of these assets could negatively affect our operating results.

As of December 31, 2016, we had \$438.2 million and \$253.7 million of goodwill and intangible assets, respectively. On at least an annual basis, we assess whether there have been impairments in the carrying value of goodwill and intangible assets. If the carrying value of an asset is determined to be impaired, then it is written down to fair value by a non-cash charge to operating earnings. Changes in circumstances that could indicate that the carrying value of goodwill or intangible assets may not be recoverable include declines in our stock price, market capitalization, cash flows and slower growth rates in our industry. We cannot accurately predict the likelihood or potential amount and timing of any impairment of goodwill or other intangible assets. An impairment of a significant portion of goodwill or intangible assets could materially and negatively affect our results of operations and financial condition.

Restrictions in our credit facility may limit our activities, including dividend payments, share repurchases and acquisitions.

Our credit facility contains restrictions, including covenants limiting our ability to incur additional debt, grant liens, make acquisitions and other investments, prepay specified debt, consolidate, merge or acquire other businesses, sell assets, pay dividends and other distributions, repurchase stock and enter into transactions with affiliates. There can be no assurance

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Blackbaud, Inc.

that we will be able to remain in compliance with the covenants to which we are subject in the future and, if we fail to do so, that we will be able to obtain waivers from our lenders or amend the covenants.

In the event of a default under our credit facility, we could be required to immediately repay all outstanding borrowings, which we might not be able to do. In addition, certain of our material domestic subsidiaries will be required to guarantee amounts borrowed under the credit facility, and we have pledged the shares of certain of our subsidiaries as collateral for our obligations under the credit facility. Any such default could have a material adverse effect on our ability to operate, including allowing lenders under the credit facility to enforce guarantees of our subsidiaries, if any, or exercise their rights with respect to the shares pledged as collateral.

We have recorded significant deferred tax assets, and we might never realize their full value, which would result in a charge against our earnings.

As of December 31, 2016, we had deferred tax assets of \$55.8 million. Realization of our deferred tax assets is dependent upon our generating sufficient taxable income in future years to realize the tax benefit from those assets. Deferred tax assets are reviewed at least annually for realizability. A charge against our earnings would result if, based on the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. This could be caused by, among other things, deterioration in performance, loss of key contracts, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of or affect the solutions sold by our business and a variety of other factors. If a deferred tax asset was determined to be not realizable in a future period, the charge to earnings would be recognized as an expense in our results of operations in the period the determination is made. Additionally, if we are unable to utilize our deferred tax assets, our cash flow available to fund operations could be adversely affected.

Depending on future circumstances, it is possible that we might never realize the full value of our deferred tax assets. Any future determination of impairment of a significant portion of our deferred tax assets would have an adverse effect on our financial condition and results of operations.

Claims that we or our technologies infringe upon the intellectual property or other proprietary rights of a third party may require us to incur significant costs, enter into royalty or licensing agreements or develop or license substitute technology.

We may be subject to claims that our technologies in our solutions and services infringe upon the intellectual property or other proprietary rights of a third party. In addition, the vendors providing us with technology that we use in our own technology could become subject to similar infringement claims. Although we believe that our solutions and services do not infringe any intellectual property or other proprietary rights, we cannot be certain that our solutions and services do not, or that they will not in the future, infringe intellectual property or other proprietary rights held by others. Any claims of infringement could cause us to incur substantial costs defending against the claim, even if the claim is without merit, and could distract our management from our business. Moreover, any settlement or adverse judgment resulting from the claim could require us to pay substantial amounts, or obtain a license to continue to use the solutions and services that are the subject of the claim, and/or otherwise restrict or prohibit our use of the technology. There can be no assurance that we would be able to obtain a license on commercially reasonable terms from the third party asserting any particular claim, or that we would be able to successfully develop alternative technology on a timely basis, or that we would be able to obtain a license from another provider of suitable alternative technology to permit us to continue offering, and our customers to continue using, the solutions and services. In addition, we generally provide in our customer arrangements for certain solutions and services that we will indemnify our customers against third-party infringement claims relating to technology we provide to those customers, which could obligate us to pay damages if the solutions and services were found to be infringing. Infringement claims asserted against us, our vendors or our customers may have a material adverse effect on our business, prospects, financial condition and results of operations.

Our solutions utilize open source software, which may subject us to litigation, require us to re-engineer our solutions, or otherwise divert resources away from our development efforts.

We use open source software in connection with certain of our solutions. Such open source software is generally licensed by its authors or other third parties under open source licenses, including, for example, the GNU General Public License, the GNU Lesser General Public License, “Apache-style” licenses, “BSD-style” licenses and other open source licenses. There is little legal precedent governing the interpretation of many of the terms of some of these licenses, and therefore the

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Blackbaud, Inc.

Dublin, Ireland; London, England; Brisbane, Australia; and Sydney, Australia. We believe that our properties are in good operating condition and adequately serve our current business operations for all of our business segments. We also anticipate that suitable additional or alternative space, including those under lease options, will be available at commercially reasonable terms for future expansion.

**ITEM 3. LEGAL PROCEEDINGS**

From time to time we may become involved in litigation relating to claims arising from our ordinary course of business. We do not believe that there are any claims or actions pending or threatened against us, the ultimate disposition of which would have a material adverse effect on us.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

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Blackbaud, Inc.

## PART II.

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is trading on the NASDAQ Stock Market LLC ("NASDAQ") under the symbol "BLKB." The following table sets forth, for the quarterly reporting periods indicated, the high and low market prices for shares of our common stock, as reported by NASDAQ, and dividend per share information.

	Common Stock Market Prices		
	High	Low	Dividends Declared
Fiscal year ended December 31, 2016			
Fourth quarter	\$67.42	\$58.29	\$ 0.12
Third quarter	71.09	64.32	0.12
Second quarter	68.40	58.36	0.12
First quarter	65.33	50.97	0.12
Fiscal year ended December 31, 2015			
Fourth quarter	\$67.54	\$56.17	\$ 0.12
Third quarter	63.73	54.10	0.12
Second quarter	59.67	47.39	0.12
First quarter	47.45	42.00	0.12

As of February 6, 2017, there were approximately 138 stockholders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, this number is not representative of the total number of stockholders represented by these stockholders of record. On February 6, 2017, the closing price of our common stock was \$64.76.

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Blackbaud, Inc.

## Stock Performance Graph

The following performance graph shall not be deemed to be “soliciting material” or “filed” or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act except as shall be expressly set forth by specific reference in such filing. The performance graph compares the performance of our common stock to the NASDAQ Composite Index and the NASDAQ Computer and Data Processing Index. The graph covers the most recent five-year period ending December 31, 2016. The graph assumes that the value of the investment in our common stock and each index was \$100.00 at December 31, 2011, and that all dividends are reinvested.

December 31,	2011	2012	2013	2014	2015	2016
Blackbaud, Inc.	\$100.00	\$83.97	\$140.59	\$163.70	\$251.47	\$246.25
NASDAQ Composite Index	100.00	116.41	165.47	188.69	200.32	216.54
NASDAQ Computer & Data Processing Index	100.00	107.40	164.63	189.15	223.06	242.34

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stock).

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We acquired Attentive.ly, a cloud software provider that provides social media capabilities allowing organizations to conduct social listening, identify key influencers and drive engagement through its cloud solution. This acquisition accelerates our ability to deliver these capabilities to our customers by integrating Attentive.ly technology into

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to subscription-based solutions negatively impacts total revenue growth, as time-based license revenue from subscription arrangements is deferred and recognized ratably over the subscription period, whereas on-premise license revenue from arrangements that include perpetual licenses is recognized up-front. In addition, the fluctuation in foreign currency exchange rates negatively impacted

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Blackbaud, Inc.

ECBU

	Years ended December 31,					
(dollars in millions)	2016	Change	2015	Change	2014	
ECBU revenue <sup>(1)</sup>	\$303.0	8.2 %	\$279.9	14.2 %	\$245.1	
% of total revenue	41.5 %		43.9 %		43.4 %	

<sup>(1)</sup> Included in ECBU revenue for 2015 and 2014 was \$31.9 million and \$5.8 million, respectively, attributable to the inclusion of MicroEdge.

2016 vs. 2015

The increase in ECBU revenue during 2016 when compared to 2015 was primarily attributable to growth in subscriptions revenue and, to a much lesser extent, growth in services revenue. The growth in subscriptions revenue was driven primarily by increases in the number of customers and the volume of transactions for which we process payments and, to a lesser extent, an increase in demand for our cloud-based solutions. ECBU services revenue increased during 2016 when compared to 2015 due to increases in consulting and training services related to our cloud-based solutions. The growth in subscriptions and services revenue was partially offset by declines in license fees and maintenance revenue from the continued transition of our solution portfolio away from a perpetual license-based model toward a cloud-based subscription delivery model.

2015 vs. 2014

After removing the impacts attributable to MicroEdge as discussed above, the remaining \$8.7 million increase in ECBU revenue during 2015, when compared to 2014, was primarily attributable to growth in subscriptions revenue, partially offset by decreases in consulting services revenue and revenue from license fees. The growth in subscriptions resulted primarily from an increase in the number of customers and the volume of transactions for which we process payments, as well as increases in demand for our hosting services associated with our Blackbaud CRM solution and our subscription-based analytic services. Also contributing to the overall growth in ECBU revenue was an increase in maintenance revenue related to new Blackbaud CRM customers. As discussed above, consulting services revenue and license fees and other revenue decreased as a result of the continuing shift in our go-to-market strategy towards cloud-based solutions, which in general, require less implementation services.

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Blackbaud, Inc.

## IBU

	Years ended December 31,					
(dollars in millions)	2016	Change	2015	Change	2014	
IBU revenue	\$42.5	1.3	% \$42.0	(10.8 )%	\$47.1	
% of total revenue	5.8	%	6.6	%	8.3	%

2016 vs. 2015

IBU revenue remained relatively unchanged during 2016 when compared to 2015, as an increase in subscriptions revenue was largely offset by reductions in maintenance and consulting services revenue, as well as changes in exchange rates between foreign currencies and the U.S. dollar, which affect the translation of its revenues into U.S. dollars for purposes of reporting consolidated financial results. The increase in IBU subscriptions revenue during 2016 was driven primarily by increased demand for our cloud-based solutions and, to a lesser extent, increases in the number of customers and volume of transactions for which we process payments. In the near term, we expect IBU revenue to remain relatively unchanged as our on-premise Raiser's Edge customers transition to our Raiser's Edge NXT solution, which, in general, requires less implementation services. The fluctuation in foreign currency exchange rates negatively impacted IBU revenue during 2016 by approximately \$2.9 million. Further explanation of this impact is included below under the caption "Foreign Currency Exchange Rates".

2015 vs. 2014

The decrease in IBU revenue during 2015, when compared to 2014, was primarily related to a reduction in perpetual license sales of our Raiser's Edge solution, which also caused IBU consulting services revenue and maintenance revenue to decrease. Also contributing to the decrease in IBU revenue during 2015 was the sale of RLC in May 2015 as well as changes in exchange rates between foreign currencies and the U.S. dollar, which affect the translation of its revenues into U.S. dollars for purposes of reporting consolidated financial results. The fluctuation in foreign currency exchange rates negatively impacted IBU revenue during 2015 by approximately \$5.5 million. Further explanation of this impact is included below under the caption "Foreign Currency Exchange Rates".

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related costs.

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Blackbaud, Inc.

Cost of maintenance increased during 2015 when compared to 2014 primarily as a result of an increase in amortization of intangible assets from business combinations of \$3.4 million. Partially offsetting the increase in cost of maintenance was a decrease in compensation costs primarily due to the shift in customer support headcount from maintenance towards subscriptions as customers migrate towards our cloud-based solution. Maintenance gross margin remained relatively unchanged when comparing 2015 to 2014.

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Blackbaud, Inc.

Operating expenses

Sales, marketing and customer success

(dollars in millions)	Years ended December 31,					
	2016	Change	2015	Change	2014	
Sales, marketing and customer success expense	\$155.8	26.0 %	\$123.6	15.2 %	\$107.4	
% of total revenue	21.3 %		19.4 %		19.0 %	

Sales, marketing and customer success expense includes compensation costs, travel-related expenses, sales commissions, advertising and marketing materials, public relations costs and allocated depreciation, facilities and IT support costs.

2016 vs. 2015

We continue to make investments to drive sales effectiveness, which is a component of our four-point growth strategy to accelerate revenue growth. The increases in sales, marketing, and customer success expense in dollars and as a percentage of total revenue during 2016 when compared 2015, was primarily due to increases in compensation costs of \$21.5 million and commissions expense \$5.6 million. Compensation costs increased primarily due to incremental headcount to support the increase in direct sales, marketing, and customer success efforts of our growing operations. The expansion of our customer success program is targeted to ensure our customers are fully realizing the value of our solutions, which we believe will drive customer loyalty and retention and will also result in increased customer referrals. The increases in commission expense were primarily driven by increases in commissionable revenue during 2016 when compared to 2015. The inclusion of Smart Tuition for the full year in 2016 also contributed to the increases in compensation costs and commissions expense.

2015 vs. 2014

Sales, marketing and customer success expense as a percentage of revenue remained relatively unchanged when comparing 2015 to 2014.

The increase in sales, marketing and customer success expense during 2015 when compared to 2014 was primarily due to increases in compensation costs and commissions expense of \$5.7 million and \$4.9 million, respectively. To a lesser extent, increases in advertising and marketing materials costs of \$1.9 million and IT support costs of \$1.3 million also contributed to the increase in sales, marketing and customer success expense during 2015. Compensation costs increased primarily due to incremental headcount to support the increase in sales and marketing efforts of our growing operations. The increase in commission expense was primarily driven by an increase in commissionable revenue during 2015 when compared to 2014. The inclusion of Smart Tuition, MicroEdge and WhippleHill also contributed to the increase in sales, marketing and customer success expense.

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Blackbaud, Inc.

## Research and development

(dollars in millions)	Years ended December 31,					
	2016	Change	2015	Change	2014	
Research and development expense <sup>(1)</sup>	\$89.9	6.2	% \$84.6	9.7	% \$77.2	
% of total revenue	12.3	%	13.3	%	13.7	%

Not included in research and development expense for 2016, 2015 and 2014 were \$26.2 million, \$15.5 million and \$8.3 million, respectively, of qualifying costs associated with development activities that are required to be capitalized under the internal-use software accounting guidance such as those related to development of our next (1) generation NXT and Luminare cloud-based solutions, as well as development costs associated with acquired companies. Qualifying capitalized software development costs associated with our cloud-based solutions are subsequently amortized to cost of subscriptions revenue over the related asset's estimated useful life, which generally range from three to seven years.

Research and development expense includes compensation costs, third-party contractor expenses, software development tools and other expenses related to developing new solutions, upgrading and enhancing existing solutions, and allocated depreciation, facilities and IT support costs.

**2016 vs. 2015**

We continue to make investments to deliver integrated and open solutions in the cloud, which is a component of our four-point growth strategy to accelerate revenue growth. The increase in research and development expense during 2016 when compared to 2015, was primarily due to an increase in compensation costs of \$13.0 million. We have added engineering headcount to drive our solution development efforts, and the inclusion of Smart Tuition added to the increases in compensation costs. Also contributing to the increase in research and development expense during 2016 was an increase in third-party contractor expenses of \$1.8 million, to assist in our solution development efforts. Partially offsetting these increases during 2016 was an increase of \$10.7 million in the amount of software development costs that were capitalized. As discussed above, the increase in the amount capitalized was a result of incurring more qualifying costs associated with development activities that are required to be capitalized under the internal-use software accounting guidance. We expect that the increase in the amount of software development costs capitalized will continue in the near-term as we make investments on innovation, quality and the integration of our solutions which we believe will drive long-term revenue growth.

Research and development expense decreased as a percentage of total revenue during 2016, when compared to 2015, primarily due to the increase in the amount of software development costs capitalized as discussed above.

**2015 vs. 2014**

Research and development expense as a percentage of revenue remained relatively unchanged when comparing 2015 to 2014.

The increase in research and development expense during 2015 when compared to 2014 was primarily due to increases in compensation costs of \$11.1 million. We added engineering headcount to drive our solution development efforts. The inclusion of Smart Tuition, MicroEdge and WhippleHill contributed to the increase in compensation costs. Also contributing to the increase in research and development expense during 2015 were increases in stock-based compensation of \$1.6 million and allocated IT support costs of \$1.6 million. Partially offsetting these research and development expense increases during 2015 was a \$7.2 million increase in the amount of software development costs that were capitalized. As discussed above, the increase in the amount capitalized was a result of incurring more qualifying costs associated with development activities that are required to be capitalized under the internal-use software accounting guidance.

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## Blackbaud, Inc.

## General and administrative

(dollars in millions)	Years ended December 31,					
	2016	Change	2015	Change	2014	
General and administrative expense	\$81.3	6.9	% \$76.1	30.6	% \$58.3	
% of total revenue	11.1	%	11.9	%	10.3	%

General and administrative expense consists primarily of compensation costs for general corporate functions, including senior management, finance, accounting, legal, human resources and corporate development, third-party professional fees, insurance, allocated depreciation, facilities and IT support costs, acquisition-related expense and other administrative expenses.

## 2016 vs. 2015

General and administrative expense decreased as a percentage of total revenue during 2016, when compared to the same periods in 2015, primarily due our successful integration of Smart Tuition as well as progress against our operating efficiency initiative, which has allowed us to improve resource effectiveness and maintain tight control over discretionary spending.

The increase in general and administrative expense during 2016 was driven primarily by an increase in compensation costs of \$5.1 million. Compensation costs increased primarily due to increases in stock-based compensation expense, employee benefit costs and salaries for the resources needed to support the growth of our business. The increase in stock-based compensation expense was primarily driven by an increase in the grant date fair value of our annual equity awards granted during 2016 when compared to the grant date fair value of our annual equity awards granted during 2015. The inclusion of Smart Tuition also contributed to the growth in general and administrative expense during 2016.

## 2015 vs. 2014

General and administrative expense increased as a percentage of revenue during 2015 when compared to 2014 primarily due to the inclusion of MicroEdge, which historically had higher general and administrative expenses as a percentage of revenue. The growth in stock-based compensation discussed below also contributed to the increase in general and administrative expense as a percentage of revenue.

The increase in general and administrative expense during 2015 when compared to 2014 was primarily due to increases in human resource costs of \$7.7 million, stock-based compensation expense of \$5.6 million, infrastructure costs of \$3.7 million and acquisition-related expenses and integration costs of \$1.9 million. Partially offsetting these increases during 2015 was a decrease in other corporate costs of \$4.9 million. Human resource costs increased primarily due to additional resources needed to support the growth of our business and from the inclusion of Smart Tuition, MicroEdge and WhippleHill personnel. The increases in infrastructure and acquisition-related expenses and integration costs were primarily due to our acquisitions of Smart Tuition and MicroEdge. The increase in stock-based compensation expense was primarily attributable to a change in timing of certain annual equity award grants, whereby annual grants that would have otherwise been made in 2013 were instead made during 2014, as well as the impact of new equity award grants in the current year to certain senior management hires. There was no change in the timing of annual equity award grants in the current year when compared to the prior year.













revenue growth is calculated.

(4) To determine non-GAAP organic revenue growth on a constant currency basis, revenues from entities reporting in foreign currencies were translated to U.S. Dollars using the comparable prior period's quarterly weighted average foreign currency exchange rates. The primary foreign currencies creating the impact are the Canadian Dollar, EURO, British Pound and Australian Dollar.

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favorable drivers of cash flow from operations in our third and fourth quarters are merit-based salary increases, which are generally effective in April each year. In addition, deferred revenues can vary on a seasonal basis for the same reasons. These patterns may change as a result of the continued shift to online giving, growth in volume of transactions for which we process payments, acquisitions, new market opportunities, new solution introductions or other factors.

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As of December 31, 2016, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC, that have or are reasonably likely to have, a current or future effect on our financial condition, changes in our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

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are inherently uncertain.

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Blackbaud, Inc.

Income Taxes

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
<p>We make estimates and judgments in accounting for income taxes. Our income tax returns, like those of most companies, are periodically audited by domestic and foreign tax authorities.</p> <p>We measure and recognize uncertain tax positions. To recognize uncertain tax positions, we must first determine if it is more likely than not that the position will be sustained upon audit. We must then measure the benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. We make estimates in determining tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial reporting purposes. We record valuation allowances to reduce our deferred tax assets to the amount expected to be realized.</p>	<p>The calculation of our income tax provision requires estimates due to transactions, credits and calculations where the ultimate tax determination is uncertain. Uncertainties arise as a consequence of the actual source of taxable income between domestic and foreign locations, the outcome of tax audits and the ultimate utilization of tax credits.</p> <p>Our effective income tax rate is also affected by changes in the geographic distribution of our earnings or losses, changes in tax law in jurisdictions where we conduct business.</p> <p>Significant judgment is required in the identification and measurement of uncertain tax positions. Our liability for unrecognized tax benefits contains uncertainties because management is required to make assumptions and to apply judgment to estimate the exposures associated with our various filing positions.</p> <p>In assessing the adequacy of a recorded valuation allowance significant judgment is required. We consider all positive and negative evidence and a variety of factors including the scheduled reversal of deferred tax liabilities, historical and projected future taxable income, and prudent and feasible tax planning strategies.</p>	<p>Although we believe that the judgments and estimates discussed herein are reasonable, actual results could differ, and we may be exposed to losses or gains that could be material.</p> <p>To the extent actual results differ from estimated amounts recorded, such differences will impact the income tax provision in the period in which the determination is made.</p> <p>If we determine there is less than a 50% likelihood that we will be able to use a deferred tax asset in the future in excess of its net carrying value, then an adjustment to the deferred tax asset valuation allowance is made to increase income tax expense, thereby reducing net income in the period such determination was made.</p>

Long-lived and Intangible Assets including Goodwill

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
<p>We review our long-lived and identifiable intangible assets for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. If such events or changes in circumstances occur, we use the undiscounted cash flow method to determine whether the asset is impaired. To the extent that</p>	<p>We use significant judgment in assessing qualitative factors to determine whether events and circumstances indicate that it is more than 50% likely that indefinite-lived intangible asset is impaired.</p>	<p>We have not made any material changes in the accounting methodology we use to assess impairment loss during the years ended December 31, 2016, 2015 and 2014.</p>















The accompanying notes are an integral part of these consolidated financial statements.

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contracts may also include the right to unspecified solution upgrades on an if-and-when available basis. Certain incremental support services are sold in prepaid units of time and recognized as revenue upon their usage.

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deferred tax assets to the amount expected to be realized. In assessing the adequacy of a recorded valuation allowance significant judgment is required. We consider all positive and negative evidence and a variety of factors including the scheduled

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

reversal of deferred tax liabilities, historical and projected future taxable income, and prudent and feasible tax planning strategies. If we determine there is less than a 50% likelihood that we will be able to use a deferred tax asset in the future in excess of its net carrying value, then an adjustment to the deferred tax asset valuation allowance is made to increase income tax expense, thereby reducing net income in the period such determination was made. We measure and recognize uncertain tax positions. To recognize such positions, we must first determine if it is more likely than not that the position will be sustained upon audit. We must then measure the benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. Significant judgment is required in the identification and measurement of uncertain tax positions.

## Foreign currency

Net assets recorded in a foreign currency are translated at the exchange rate on the balance sheet date. Revenue and expense items are translated using an average of monthly exchange rates. The resulting translation adjustments are recorded in accumulated other comprehensive income.

Gains and losses resulting from foreign currency transactions denominated in currency other than the functional currency are recorded at the approximate rate of exchange at the transaction date in other expense, net. For the years ended December 31, 2016 and 2014, we recorded insignificant net foreign currency losses. For the year ended December 31, 2015, we recorded an insignificant net foreign currency gain.

## Research and development

Research and development costs are expensed as incurred. These costs include human resource costs, stock-based compensation expense, third-party contractor expenses, software development tools and certain other expenses related to researching and developing new solutions, and allocated depreciation, facilities and IT support costs.

## Software development costs

We incur certain costs associated with the development of internal-use software, which are primarily related to activities performed to develop our cloud-based solutions. Internal and external costs incurred in the preliminary project stage of internal-use software development are expensed as incurred. Once the software being developed has reached the application development stage, qualifying internal costs including payroll and payroll-related costs of employees who are directly associated with and devote time to the software project as well as external direct costs of materials and services are capitalized. Capitalization ceases at the point at which the developed software is substantially complete and ready for its intended use, which is typically upon completion of all substantial testing. Qualifying costs capitalized during the application development stage include those related to specific upgrades and enhancements when it is probable that those costs incurred will result in additional functionality. Overhead costs, including general and administrative costs, as well as maintenance, training and all other costs associated with post-implementation stage activities are expensed as incurred. In addition, internal costs that cannot be reasonably separated between maintenance and relatively minor upgrades and enhancements are expensed as incurred.

Historically, we have also incurred and capitalized costs in connection with the development of certain of our software solutions licensed to customers on a perpetual basis, which are accounted for as costs of software to be sold, leased or otherwise marketed; however, costs capitalized related to those solutions were insignificant as of December 31, 2016 and 2015.

Qualifying capitalized software development costs are amortized on a straight line basis over the software asset's estimated useful life, which is generally three to seven years. We evaluate the useful lives of these assets on an annual basis and test for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. There were no impairment charges during the year ended December 31, 2016. During the year ended December 31, 2015, we recorded insignificant impairment charges against previously capitalized software development costs. During the year ended December 31, 2014, we recorded impairment charges of \$1.6 million against certain previously capitalized software development costs. The charges reduced the carrying value of the certain previously capitalized software development costs to zero and are reflected in research and development

expense. The impairment charges resulted from obtaining software solutions through the acquisitions of Smart Tuition in 2015 and WhippleHill in 2014, respectively, and our

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with earlier application permitted for financial statements that have not been issued. We adopted ASU 2015-16 on January 1, 2016 and it did not have a material impact

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Net charge to retained earnings for cumulative effect adjustment from adoption of ASU 2016-09 Retained earnings

We elected to retrospectively apply the changes in presentation to the statements of cash flows and no longer classify excess tax benefits as a financing activity, which increased net cash provided by operating activities and reduced net cash provided by financing activities by \$5.5 million and \$7.5 million for the years ended December 31, 2015 and 2014, respectively.

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and consolidation. ASU 2017-01 is effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted, and applied prospectively. We are currently evaluating the impact of adopting this standard.

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash ("ASU 2016-18"), which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. Early adoption is permitted, including adoption in an interim period, but any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. The new standard must be adopted retrospectively. We are currently evaluating the impact of this standard on our consolidated statements of cash flows.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 will require lessees to record most leases on their balance sheets but recognize expenses in the income statement in a manner similar to current guidance. The updated guidance also eliminates certain real estate-specific provisions and changes the guidance on sale-leaseback transactions, initial direct costs and lease executory costs for all entities. For lessors, the standard modifies the classification criteria and the accounting for sales-type and direct financing leases. All entities will classify leases to determine how to recognize lease-related revenue and expense. Classification will continue to affect amounts that lessors record on the balance sheet. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. Upon adoption, entities will be required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. We expect ASU 2016-02 will impact our consolidated financial statements and are currently evaluating the extent of the impact that implementation of this standard will have on adoption.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard also provides guidance on the recognition of costs related to obtaining customer contracts. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. ASU 2014-09 is effective for us beginning in the first quarter of 2018 and we have not selected a transition method. We are currently evaluating the impact that the adoption of ASU 2014-9 will have on our consolidated financial statements and related disclosures. As a result of our evaluation to date, we expect that ASU 2014-09 will generally result in a longer deferral of commissions expense as compared with our current amortization periods for such costs. In addition, we expect changes in the allocation of transactions prices for contracts where we sell perpetual software licenses as ASU 2014-09 requires that the transaction price in a contract be allocated based on relative standalone selling prices of the separate performance obligations. We also anticipate incremental disclosures, including, but not limited to, quantitative reconciliations of opening and closing balances of contract assets and liabilities, the value of remaining performance obligations at the end of each reporting period, and disaggregation of revenue.

**3. Business Combinations****2016 Acquisition****Attentive.ly**

On July 11, 2016, we acquired all of the outstanding equity, including all voting equity interests of Good+Geek, Inc., a Delaware corporation doing business as "Attentive.ly." Attentive.ly provides social media capabilities allowing organizations to conduct social listening, identify key influencers and drive engagement through its cloud solution. The acquisition accelerates our ability to deliver these capabilities to our customers. We acquired Attentive.ly for \$3.9 million in cash, net of closing adjustments. Of that purchase price, \$1.3 million was allocated to the acquired finite-lived intangible technology asset, which will be amortized over its estimated useful life of five years. The estimated amount of goodwill arising from the acquisition that was assigned to the General Markets Business Unit ("GMBU") reporting segment and the Enterprise Customer Business Unit ("ECBU") reporting segment was \$1.4

million and \$0.8 million, respectively. None of the goodwill is deductible for tax purposes. The carrying amounts of all other assets acquired and liabilities assumed are insignificant and approximate their estimated fair values. The assets and liabilities recorded for the acquisition of Attentive.ly were based on preliminary valuations and the estimates and assumptions are subject to change as we obtain additional information

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

during the measurement period, which may be up to one year from the acquisition date. The assets and liabilities pending finalization include the valuation of acquired intangible assets and as well as the evaluation of amounts recorded for deferred income taxes. During the year ended December 31, 2016, we incurred insignificant acquisition-related expenses associated with the acquisition of Attentive.ly, which were recorded in general and administrative expense. We included the operating results of Attentive.ly, which are insignificant, in our consolidated financial statements from the date of acquisition. We do not expect this business combination to have a material effect on our consolidated financial position, results of operations or cash flows. We determined that the Attentive.ly acquisition was not a material business combination; therefore, pro forma disclosures have not been presented.

## 2015 Acquisition

## Smart Tuition

On October 2, 2015, we completed our acquisition of all of the outstanding equity, including all voting equity interests, of Smart, LLC (“Smart Tuition”). Smart Tuition is a leading provider of payment software and services for private schools and parents. The acquisition of Smart Tuition further expanded our offerings in the K-12 technology sector. We acquired Smart Tuition for \$187.3 million in cash, net of closing adjustments including an adjustment of approximately \$0.5 million during the three months ended March 31, 2016. We received the proceeds from these closing adjustments during the three months ended June 30, 2016. On October 2, 2015, we drew down a \$186.0 million revolving credit loan under our 2014 Credit Facility (as defined in Note 9 below) to finance the acquisition of Smart Tuition. As a result of the acquisition, Smart Tuition has become a wholly-owned subsidiary of ours. We included the operating results of Smart Tuition in our consolidated financial statements within our GMBU reporting segment from the date of acquisition. For the year ended December 31, 2016, Smart Tuition's total revenue included in our consolidated financial statements was \$39.8 million. Because we have integrated the operations of Smart Tuition into ours, it is impracticable to determine the operating income attributable solely to the acquired business.

The following table summarizes the allocation of the purchase price based on the estimated fair value of the assets acquired and the liabilities assumed:

(dollars in thousands)	Purchase Price Allocation
Net working capital, excluding deferred revenue	\$ 202
Property and equipment	2,457
Deferred revenue	(6,500 )
Deferred tax asset	2,637
Intangible assets	97,800
Goodwill	90,376
Total purchase price <sup>(1)</sup>	\$ 186,972

(1) The purchase price differs from the net cash outlay of \$187.3 million due to certain insignificant acquisition-related expenses included therein.

The estimated fair value of accounts receivable acquired approximates the contractual value of \$2.8 million. The estimated goodwill recognized is attributable primarily to the opportunities for expected synergies from combining operations and the assembled workforce of Smart Tuition, all of which was assigned to our GMBU reporting segment. Approximately \$86.3 million of the goodwill arising in the acquisition is deductible for income tax purposes. We finalized the purchase price allocation for Smart Tuition, including the valuation of assets acquired and liabilities assumed, during the third quarter of 2016. All measurement period adjustments recorded were insignificant.

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

The Smart Tuition acquisition resulted in the identification of the following identifiable intangible assets:

	Intangible assets acquired (in thousands)	Weighted average amortization period (in years)
Customer relationships	\$ 72,300	17
Marketing assets	1,200	3
Acquired technology	22,100	7
Non-compete agreements	2,200	5
Total intangible assets	\$ 97,800	14

The estimated fair values of the finite-lived intangible assets were based on variations of the income approach, which estimates fair value based on the present value of cash flows that the assets are expected to generate which included the relief-from-royalty method, incremental cash flow method including the with and without method and excess earnings method, depending on the intangible asset being valued. The method of amortization of identifiable finite-lived intangible assets is based on the expected pattern in which the estimated economic benefits of the respective assets are consumed or otherwise used up. Customer relationships and acquired technology are being amortized on an accelerated basis while marketing assets and non-compete agreements are being amortized on a straight-line basis.

The following unaudited pro forma condensed combined consolidated results of operations assume that the acquisition of Smart Tuition occurred on January 1, 2014. This unaudited pro forma financial information does not reflect any adjustments for anticipated synergies resulting from the acquisition and should not be relied upon as being indicative of the historical results that would have been attained had the transaction been consummated as of January 1, 2014, or of the results that may occur in the future. The unaudited pro forma information reflects adjustments for amortization of intangibles related to the fair value adjustments of the assets acquired, write-down of acquired deferred revenue to fair value, additional interest expense related to the financing of the transaction and the related tax effects of the adjustments.

	Years ended December 31,	
(dollars in thousands, except per share amounts)	2015	2014
Revenue	\$666,131	\$587,459
Net income	\$26,334	\$17,952
Basic earnings per share	\$0.58	\$0.40
Diluted earnings per share	\$0.57	\$0.39

## 2014 Acquisitions

## MicroEdge

On October 1, 2014, we completed our acquisition of all of the outstanding equity, including all voting equity interests of MicroEdge Holdings, LLC (“MicroEdge”). MicroEdge is a provider of software solutions that enable the worldwide giving community to organize, simplify and measure their acts of charitable giving. The acquisition of MicroEdge expanded our offerings in the philanthropic giving sector with its comprehensive solutions for grant-making, corporate social responsibility and foundation management. We acquired MicroEdge for an aggregate purchase price of \$159.8 million in cash. As a result of the acquisition, MicroEdge has become a wholly-owned subsidiary of ours. The operating results of MicroEdge have been included in our consolidated financial statements from the date of acquisition within the ECBU. Because we have integrated the operations of MicroEdge into ours, it is impracticable to

determine the revenue and operating income attributable solely to the acquired business. We financed the acquisition of MicroEdge through cash on hand and borrowings of \$140.0 million under our existing credit facility.

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

The following unaudited pro forma condensed combined consolidated results of operations assume that the acquisition of MicroEdge occurred on January 1, 2013. This unaudited pro forma financial information does not reflect any adjustments for anticipated synergies resulting from the acquisition and should not be relied upon as being indicative of the historical results that would have been attained had the transaction been consummated as of January 1, 2013, or of the results that may occur in the future. The unaudited pro forma information reflects adjustments for amortization of intangibles related to the fair value adjustments of the assets acquired, write-down of acquired deferred revenue to fair value, additional interest expense related to the financing of the transaction and the related tax effects of the adjustments.

	Year ended December 31, 2014
(in thousands, except per share amounts)	
Revenue	\$ 592,930
Net income	\$ 26,944
Basic earnings per share	\$ 0.60
Diluted earnings per share	\$ 0.59

WhippleHill  
On June 16, 2014, we acquired all of the outstanding stock of WhippleHill Communications, Inc. (“WhippleHill”), a privately held company based in New Hampshire, for \$35.0 million in cash. WhippleHill is a provider of cloud-based solutions designed exclusively to serve K-12 private schools. The acquisition of WhippleHill expanded our offerings in the K-12 technology sector. The operating results of WhippleHill have been included in our consolidated financial statements from the date of acquisition. Because we have integrated the operations of WhippleHill into ours, it is impracticable to determine the revenue and operating income attributable solely to the acquired business.

We determined that the WhippleHill acquisition was a non-material business combination. As such, pro forma disclosures are not required and are not presented.

## 4. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Years ended December 31,		
(dollars in thousands, except per share amounts)	2016	2015	2014
Numerator:			
Net income	\$41,515	\$ 25,649	\$ 28,290
Denominator:			
Weighted average common shares	46,132,389	45,215,138	45,215,138
Add effect of dilutive securities:			
Stock-based awards	1,184,149	584,736	584,736
Weighted average common shares assuming dilution	47,316,538	45,799,874	45,799,874
Earnings per share:			
Basic	\$0.90	\$ 0.56	\$ 0.63
Diluted	\$0.88	\$ 0.55	\$ 0.62
Anti-dilutive shares excluded from calculations of diluted earnings per share	7,339	18,554	23,159

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

## 5. Fair Value Measurements

Recurring fair value measurements

Financial assets and liabilities measured at fair value on a recurring basis consisted of the following, as of:

(dollars in thousands)	Fair value measurement using			Total
	Level 1	Level 2	Level 3	
Fair value as of December 31, 2016				
Financial assets:				
Derivative instruments <sup>(1)</sup>	\$ —	\$ 206	\$ —	\$ —
Total financial assets	\$ —	\$ 206	\$ —	\$ —

Fair value as of December 31, 2016

Financial liabilities:

Derivative instruments <sup>(1)</sup>	\$ —	\$ 163	\$ —	\$ —
Total financial liabilities	\$ —	\$ 163	\$ —	\$ —

Fair value as of December 31, 2015

Financial assets:

Derivative instruments <sup>(1)</sup>	\$ —	\$ 406	\$ —	\$ —
Total financial assets	\$ —	\$ 406	\$ —	\$ —

Fair value as of December 31, 2015

Financial liabilities:

Derivative instruments <sup>(1)</sup>	\$ —	\$ 438	\$ —	\$ —
Total financial liabilities	\$ —	\$ 438	\$ —	\$ —

The fair value of our interest rate swaps was based on model-driven valuations using LIBOR rates, which are (1) observable at commonly quoted intervals. Accordingly, our interest rate swaps are classified within Level 2 of the fair value hierarchy.

We believe the carrying amounts of our cash and cash equivalents, donor restricted cash, accounts receivable, trade accounts payable, accrued expenses and other current liabilities and donations payable approximate their fair values at December 31, 2016 and December 31, 2015, due to the immediate or short-term maturity of these instruments.

We believe the carrying amount of our debt approximates its fair value at December 31, 2016 and December 31, 2015, as the debt bears interest rates that approximate market value. As LIBOR rates are observable at commonly quoted intervals, our debt is classified within Level 2 of the fair value hierarchy.

We did not transfer any assets or liabilities among the levels within the fair value hierarchy during the years ended December 31, 2016, 2015 and 2014. Additionally, we did not hold any Level 3 assets or liabilities during the years ended December 31, 2016, 2015 and 2014.

Non-recurring fair value measurements

Assets and liabilities that are measured at fair value on a non-recurring basis include intangible assets and goodwill which are recognized at fair value during the period in which an acquisition is completed, from updated estimates and assumptions during the measurement period, or when they are considered to be impaired. These non-recurring fair value measurements, primarily for intangible assets acquired, were based on Level 3 unobservable inputs. In the event of an impairment, we determine the fair value of the goodwill and intangible assets using a discounted cash flow

approach, which contains

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

significant unobservable inputs and therefore is considered a Level 3 fair value measurement. The unobservable inputs in the analysis generally include future cash flow projections and a discount rate.

There were no non-recurring fair value adjustments to intangible assets and goodwill during 2016, 2015 and 2014 except for certain business combination accounting adjustments to the initial fair value estimates of the assets acquired and liabilities assumed at the acquisition date (as disclosed in Note 3 to these consolidated financial statements) from updated estimates and assumptions during the measurement period. The measurement period may be up to one year from the acquisition date. We record any measurement period adjustments to the fair value of assets acquired and liabilities assumed, with the corresponding offset to goodwill.

## 6. Property and Equipment and Software Development Costs

## Property and equipment

Property and equipment consisted of the following, as of:

(dollars in thousands)	Estimated useful life (years)	December 31,	
		2016	2015
Equipment	3 - 5	\$2,403	\$3,868
Computer hardware	3 - 5	81,260	77,668
Computer software	3 - 5	31,604	26,457
Construction in progress	-	2,972	2,337
Furniture and fixtures	5 - 7	7,989	7,146
Leasehold improvements	Lesser of lease term or 10 years	19,942	17,171
Total property and equipment		146,170	134,647
Less: accumulated depreciation		(95,901)	(81,996)
Property and equipment, net		\$50,269	\$52,651

Depreciation expense was \$19.8 million, \$18.5 million, and \$17.3 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Property and equipment, net of depreciation, under capital leases at December 31, 2016 and 2015 was insignificant.

## Software development costs

Software development costs consisted of the following, as of:

(dollars in thousands)	Estimated useful life (years)	December 31,	
		2016	2015
Software development costs	3 - 7	\$55,126	\$28,767
Less: accumulated amortization		(17,544)	(9,216)
Software development costs, net		\$37,582	\$19,551

Amortization expense related to software development costs was \$8.3 million, \$5.4 million, and \$2.0 million for the years ended December 31, 2016, 2015 and 2014, respectively, and is included in both cost of subscriptions, primarily, and to a lesser extent, cost of license fees.

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

## 7. Goodwill and Other Intangible Assets

The change in goodwill for each reportable segment (as defined in Note 16) during 2016 consisted of the following:

(dollars in thousands)	ECBU	GMBU	IBU	Total
Balance at December 31, 2015	\$240,494	\$190,976	\$4,979	\$436,449
Additions related to current year business combination	840	1,444	58	2,342
Adjustments related to prior year business combination	—	(182)	—	(182)
Effect of foreign currency translation	—	—	(369)	(369)
Balance at December 31, 2016	\$241,334	\$192,238	\$4,668	\$438,240

We have recorded intangible assets acquired in various business combinations based on their fair values at the date of acquisition. The table below sets forth the balances of each class of intangible asset and related amortization as of:

(dollars in thousands)	December 31,	
	2016	2015
Finite-lived gross carrying amount		
Customer relationships	\$248,287	\$247,462
Marketing assets	16,187	16,187
Acquired software and technology	147,269	148,615
Non-compete agreements	3,493	3,402
Database	4,275	4,378
Total finite-lived gross carrying amount	419,511	420,044
Accumulated amortization		
Customer relationships	(77,983)	(57,748)
Marketing assets	(9,826)	(7,753)
Acquired software and technology	(74,975)	(57,548)
Non-compete agreements	(1,553)	(864)
Database	(4,093)	(4,061)
Total accumulated amortization	(168,430)	(127,974)
Indefinite-lived gross carrying amount		
Marketing assets	2,595	2,602
Intangible assets, net	\$253,676	\$294,672

Changes to the gross carrying amounts of intangible asset classes during 2016 were related to our business acquisitions as described in Note 3 of these financial statements and the effect of foreign currency translation.

## Amortization expense

Amortization expense related to finite-lived intangible assets acquired in business combinations is allocated to cost of revenue on the consolidated statements of comprehensive income based on the revenue stream to which the asset contributes, except for marketing assets and non-compete agreements, for which the associated amortization expense is included in operating expenses.

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

The following table summarizes amortization expense of our finite-lived intangible assets:

(dollars in thousands)	Years ended December		
	2016	2015	2014
Included in cost of revenue:			
Cost of subscriptions	\$31,270	\$23,075	\$20,239
Cost of maintenance	5,327	4,162	772
Cost of services	2,621	2,382	2,910
Cost of license fees and other	340	368	424
Total included in cost of revenue	39,558	29,987	24,345
Included in operating expenses	2,840	2,231	1,803
Total amortization of intangibles from business combinations	\$42,398	\$32,218	\$26,148

The following table outlines the estimated future amortization expense for each of the next five years for our finite-lived intangible assets as of December 31, 2016:

Years ending December 31, Amortization

(dollars in thousands)	expense
2017	\$ 41,711
2018	40,001
2019	36,541
2020	27,975
2021	21,062
Total	\$ 167,290

## 8. Consolidated Financial Statement Details

Prepaid expenses and other assets

(dollars in thousands)	December 31, 2016	December 31, 2015
Deferred sales commissions	\$ 37,459	\$ 30,141
Prepaid software maintenance	18,130	15,308
Taxes, prepaid and receivable	4,111	9,121
Deferred professional services costs	1,722	3,603
Deferred tax asset	2,379	2,869
Prepaid royalties	1,373	1,767
Other assets	5,664	6,758
Total prepaid expenses and other assets	70,838	69,567
Less: Long-term portion	22,524	20,901
Prepaid expenses and other current assets	\$ 48,314	\$ 48,666

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

## Accrued expenses and other liabilities

(dollars in thousands)	December 31, December 31,	
	2016	2015
Accrued bonuses	\$ 19,217	\$ 24,591
Accrued commissions and salaries	9,352	8,391
Taxes payable	3,452	3,923
Deferred rent liabilities	4,110	4,070
Lease incentive obligations	5,604	4,734
Unrecognized tax benefit	3,295	3,147
Customer credit balances	5,148	3,515
Accrued vacation costs	2,214	2,446
Accrued health care costs	1,495	2,356
Other liabilities	8,842	7,911
Total accrued expenses and other liabilities	62,729	65,084
Less: Long-term portion	8,533	7,623
Accrued expenses and other current liabilities	\$ 54,196	\$ 57,461

## Deferred revenue

(dollars in thousands)	December 31, December 31,	
	2016	2015
Subscriptions	\$ 144,606	\$ 122,524
Maintenance	76,803	85,901
Services	29,039	28,517
License fees and other	492	393
Total deferred revenue	250,940	237,335
Less: Long-term portion	6,440	7,119
Deferred revenue, current portion	\$ 244,500	\$ 230,216
Other expense, net		

(dollars in thousands)	Years ended December 31,		
	2016	2015	2014
Interest income	\$581	\$155	\$59
Loss on sale of business	—	(1,976)	—
Loss on debt extinguishment and termination of derivative instruments <sup>(1)</sup>	—	—	(996)
Other (expense) income, net	(872)	134	(182)
Other expense, net	\$(291)	\$(1,687)	\$(1,119)

(1) See Notes 9 and 10 to these consolidated financial statements for details of the loss on debt extinguishment and termination of derivative instruments.

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

**9. Debt**

The following table summarizes our debt balances and the related weighted average effective interest rates, which includes the effect of interest rate swap agreements.

(dollars in thousands)	Debt balance at		Weighted average effective interest rate at		
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	
Credit facility:					
Revolving credit loans	\$ 180,900	\$ 242,900	2.36	% 2.15	%
Term loans	162,969	167,344	2.62	% 2.51	%
Total debt	343,869	410,244	2.48	% 2.30	%
Less: Unamortized debt discount	1,476	2,157			
Less: Debt, current portion	4,375	4,375	2.50	% 2.11	%
Debt, net of current portion	\$ 338,018	\$ 403,712	2.48	% 2.30	%

We were previously party to a \$325.0 million five-year credit facility entered into during February 2012. The credit facility included: a dollar and a designated currency revolving credit facility with sublimits for letters of credit and swingline loans (the “2012 Revolving Facility”) and a delayed draw term loan (the “2012 Term Loan”) together, (the “2012 Credit Facility”).

**2014 refinancing**

In February 2014, we entered into a five-year \$325.0 million credit facility (the “2014 Credit Facility”) and drew \$175.0 million on a term loan upon closing, which was used to repay all amounts outstanding under the 2012 Credit Facility. The 2014 Credit Facility includes the following facilities: (i) a dollar and a designated currency revolving credit facility with sublimits for letters of credit and swingline loans (the “2014 Revolving Facility”) and (ii) a term loan facility (the “2014 Term Loan”).

Certain lenders of the 2012 Term Loan participated in the 2014 Term Loan and the change in the present value of our future cash flows to these lenders under the 2012 Term Loan and under the 2014 Term Loan was less than 10%.

Accordingly, we accounted for the refinancing event for these lenders as a debt modification. Certain lenders of the 2012 Term Loan did not participate in the 2014 Term Loan. Accordingly, we accounted for the refinancing event for these lenders as a debt extinguishment. Certain lenders of the 2012 Revolving Facility participated in the 2014 Revolving Facility and provided increased borrowing capacities. Accordingly, we accounted for the refinancing event for these lenders as a debt modification. Certain lenders of the 2012 Revolving Facility did not participate in the 2014 Revolving Facility. Accordingly, we accounted for the refinancing event for these lenders as a debt extinguishment. We recorded a \$0.4 million loss on debt extinguishment related to the write-off of deferred financing costs for the portions of the 2012 Credit Facility considered to be extinguished. This loss was recognized in the consolidated statements of comprehensive income within loss on debt extinguishment and termination of derivative instruments. In connection with our entry into the 2014 Credit Facility, we paid \$2.5 million in financing costs, of which \$1.1 million were capitalized and, together with a portion of the unamortized deferred financing costs from the 2012 Credit Facility and prior facilities, are being amortized into interest expense ratably over the term of the new facility. As of December 31, 2016 and December 31, 2015, deferred financing costs totaling \$0.6 million and \$0.9 million, respectively, were included in other assets on our consolidated balance sheets.

**Summary of the 2014 Credit Facility**

The 2014 Credit Facility is secured by the stock and limited liability company interests of certain of our subsidiaries and is guaranteed by our material domestic subsidiaries.



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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

Amounts borrowed under the dollar tranche revolving credit loans and term loan under the 2014 Credit Facility bear interest at a rate per annum equal to, at our option, (a) a base rate equal to the highest of (i) the prime rate, (ii) federal funds rate plus 0.50% and (iii) one month LIBOR plus 1.00% (the "Base Rate"), in addition to a margin of 0.00% to 0.50%, or (b) LIBOR rate plus a margin of 1.00% to 1.50%.

We also pay a quarterly commitment fee on the unused portion of the 2014 Revolving Facility from 0.15% to 0.225% per annum, depending on our net leverage ratio. At December 31, 2016, the commitment fee was 0.225%. The term loan under the 2014 Credit Facility requires periodic principal payments. The balance of the term loan and any amounts drawn on the revolving credit loans are due upon maturity of the 2014 Credit Facility in February 2019. We evaluate the classification of our debt as current or non-current based on the required annual maturities of the 2014 Credit Facility.

The 2014 Credit Facility includes financial covenants related to the net leverage ratio and interest coverage ratio, as well as restrictions on our ability to declare and pay dividends and our ability to repurchase shares of our common stock. At December 31, 2016, we were in compliance with our debt covenants under the 2014 Credit Facility.

**Financing for MicroEdge acquisition**

The 2014 Credit Facility includes an option to request increases in the revolving commitments and/or request additional term loans in an aggregate principal amount of up to \$200.0 million. On October 1, 2014, we exercised this option, and certain lenders agreed, to increase the revolving credit commitments by \$100.0 million (the "October 2014 Additional Revolving Credit Commitments") such that for the period commencing October 1, 2014, the aggregate revolving credit commitments available were \$250.0 million. The October 2014 Additional Revolving Credit Commitments have the same terms as the existing revolving credit commitments.

On October 1, 2014, we drew down \$140.0 million in revolving credit commitments under the 2014 Credit Facility to finance the acquisition of MicroEdge.

**Financing for Smart Tuition acquisition**

On July 17, 2015, we again exercised this option and certain lenders agreed to increase the revolving credit commitments by an additional \$100.0 million (the "July 2015 Additional Revolving Credit Commitments") such that for the period commencing July 17, 2015, the aggregate revolving credit commitments available were \$350.0 million. The July 2015 Additional Revolving Credit Commitments have the same terms as the existing revolving credit commitments.

On October 2, 2015, we drew down a \$186.0 million revolving credit loan under the 2014 Credit Facility to finance the acquisition of Smart Tuition.

As of December 31, 2016, the required annual maturities related to the 2014 Credit Facility were as follows:

Years ending December 31, Annual	maturities
(dollars in thousands)	
2017	\$4,375
2018	4,375
2019	335,119
2020	—
2021	—
Thereafter	—
Total required maturities	\$ 343,869

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

10. Derivative Instruments

We use derivative instruments to manage our variable interest rate risk. In February 2014, in connection with the refinancing of our debt, we terminated the two interest rate swap agreements associated with the 2012 Credit Facility. As part of the settlement of our swap liabilities, we recorded a loss of \$0.6 million, which was recognized in the consolidated statements of comprehensive income within loss on debt extinguishment and termination of derivative instruments.

In March 2014, we entered into a new interest rate swap agreement (the "March 2014 Swap Agreement"), which effectively converts portions of our variable rate debt under the 2014 Credit Facility to a fixed rate for the term of the March 2014 Swap Agreement. The initial notional value of the March 2014 Swap Agreement was \$125.0 million with an effective date beginning in March 2014. In March 2017, the notional value of the March 2014 Swap Agreement will decrease to \$75.0 million for the remaining term through February 2018. We designated the March 2014 Swap Agreement as a cash flow hedge at the inception of the contract.

In October 2015, we entered into an additional interest rate swap agreement (the "October 2015 Swap Agreement"), which effectively converts portions of our variable rate debt under the 2014 Credit Facility to a fixed rate for the term of the October 2015 Swap Agreement. The notional value of the October 2015 Swap Agreement was \$75.0 million with an effective date beginning in October 2015 and maturing in February 2018. We designated the October 2015 Swap Agreement as a cash flow hedge at the inception of the contract.

The fair values of our derivative instruments were as follows as of:

(dollars in thousands)	Balance sheet location	December 31, 2016	December 31, 2015
Derivative instruments designated as hedging instruments:			
Interest rate swap, long-term portion	Other assets	\$ 206	\$ 406
Total derivative instruments designated as hedging instruments		\$ 206	\$ 406
December 31, December 31, 2016 2015			
Derivative instruments designated as hedging instruments:			
Interest rate swaps, current portion	Accrued expenses and other current liabilities	\$ —	\$ 2
Interest rate swaps, long-term portion	Other liabilities	163	436
Total derivative instruments designated as hedging instruments		\$ 163	\$ 438

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

The effects of derivative instruments in cash flow hedging relationships were as follows:

	Gain (loss) recognized in accumulated other comprehensive loss as of	Location of gain (loss) reclassified from accumulated other comprehensive loss into income	Gain (loss) reclassified from accumulated other comprehensive loss into income Year ended December 31, 2016
(dollars in thousands)	December 31, 2016		Year ended December 31, 2016
Interest rate swaps	\$ 42	Interest expense	\$ (1,106 )
	December 31, 2015		Year ended December 31, 2015
Interest rate swaps	\$ (31 )	Interest expense	\$ (1,569 )
	December 31, 2014		Year ended December 31, 2014
Interest rate swaps	\$ (268 )	Interest expense	\$ (1,215 )
Interest rate swaps	—	Loss on debt extinguishment and termination of derivative instruments	(587 )
Total	\$ (268 )		\$ (1,802 )

Our policy requires that derivatives used for hedging purposes be designated and effective as a hedge of the identified risk exposure at the inception of the contract. Accumulated other comprehensive income (loss) includes unrealized gains or losses from the change in fair value measurement of our derivative instruments each reporting period and the related income tax expense or benefit. Changes in the fair value measurements of the derivative instruments and the related income tax expense or benefit are reflected as adjustments to accumulated other comprehensive income (loss) until the actual hedged expense is incurred or until the hedge is terminated at which point the unrealized gain (loss) is reclassified from accumulated other comprehensive income (loss) to current earnings. The estimated net amount of losses that are recorded in accumulated other comprehensive loss as of December 31, 2016 that is expected to be reclassified into earnings within the next twelve months is insignificant. There were no ineffective portions of our interest rate swap derivatives during the years ended December 31, 2016, 2015 and 2014. See Note 14 to these consolidated financial statements for a summary of the changes in accumulated other comprehensive income (loss) by component.

## 11. Commitments and Contingencies

## Historical Leases

We lease our headquarters facility under a 15-year lease agreement which was entered into in October 2008, and has two five-year renewal options. The current annual base rent of the lease is \$5.1 million, payable in equal monthly installments. The base rent escalates annually at a rate equal to the change in the consumer price index, as defined in the agreement, but not to exceed 5.5% in any year.

We have a lease for office space in Austin, Texas which terminates on September 30, 2023, and has two five-year renewal options. The current annual base rent of the lease is \$2.8 million. The base rent escalates annually between 2% and 4% based on the terms of the agreement. The rent expense is recorded on a straight-line basis over the length of the lease term. At December 31, 2016, we had a standby letter of credit of \$2.0 million for a security deposit for this lease.

We have provisions in our leases that entitle us to aggregate remaining leasehold improvement allowances of \$5.1 million as of December 31, 2016. These amounts are being recorded as a reduction to rent expense ratably over the terms of the leases. The leasehold improvement allowances have been included in the table of operating lease commitments below as a reduction in our lease commitments ratably over the then remaining terms of the leases. The timing of the reimbursements for the actual leasehold improvements may vary from the amounts reflected in the table below.

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

We have also received quarterly South Carolina state incentive payments as a result of locating our headquarters facility in Berkeley County, South Carolina. These amounts are recorded as a reduction of rent expense upon receipt and were \$2.9 million, \$2.3 million and \$2.2 million for the years ended December 31, 2016, 2015 and 2014, respectively. These quarterly state incentive payments related to our current headquarters facility ended in 2016. Total rent expense was \$11.7 million, \$10.3 million and \$9.4 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Lease for New Headquarters Facility

In May 2016, we entered into a lease agreement for a new headquarters facility to be built in Charleston, South Carolina (the "New Headquarters Facility"). The landlord is responsible for the design, development and construction of the New Headquarters Facility. Construction of the New Headquarters Facility will proceed in two phases. Phase One will include a building with approximately 172,000 rentable square feet, which is expected to be completed in the first quarter of 2018. The lease agreement also grants us a Phase Two option to request that the landlord construct and lease to us a second office building and related improvements. Total rent payments and leasehold improvement allowances for Phase One are estimated to be approximately \$102.1 million and \$12.9 million, respectively, over the life of the lease agreement, plus additional amounts for Phase Two, if applicable. The lease agreement is for a period of twenty years beginning on the date of substantial completion of construction by the landlord, which is estimated to be in the first quarter of 2018, and ending in the first quarter of 2038. The lease agreement provides for four renewal periods of five years each at a base rent equal to the then prevailing market rate for comparable buildings. We expect to receive quarterly South Carolina state incentive payments as a result of locating our new headquarters facility in Berkeley County, South Carolina, which will be recorded as a reduction of rent expense upon receipt.

As of December 31, 2016, the future minimum lease commitments related to lease agreements, net of related lease incentives, were as follows:

Years ending December 31, (dollars in thousands)	Operating leases <sup>(1)</sup>
2017	\$ 16,085
2018	17,103
2019	16,004
2020	15,461
2021	14,724
Thereafter	95,385
Total minimum lease payments	\$ 174,762

(1) Our future minimum lease commitments related to operating leases do not include payments related to Phase Two of our New Headquarters Facility, as that option had not been exercised as of December 31, 2016.

Other commitments

As discussed in Note 9 to these consolidated financial statements, the term loans under the 2014 Credit Facility require periodic principal payments. The balance of the term loans and any amounts drawn on the revolving credit loans are due upon maturity of the 2014 Credit Facility in February 2019.

We utilize third-party technology in conjunction with our solutions, services and operations with contractual arrangements varying in length from one to five years. In certain cases, these arrangements require a minimum annual purchase commitment. As of December 31, 2016, the remaining aggregate minimum purchase commitment under these arrangements was approximately \$38.2 million through 2021.

Solution and service indemnifications

In the ordinary course of business, we provide certain indemnifications of varying scope to customers against claims of intellectual property infringement made by third parties arising from the use of our solutions or services. If we determine



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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

that it is probable that a loss has been incurred related to solution or service indemnifications, any such loss that could be reasonably estimated would be recognized. We have not identified any losses and, accordingly, we have not recorded a liability related to these indemnifications.

**Guarantees and indemnification obligations**

We enter into agreements in the ordinary course of business with, among others, customers, creditors, vendors and service providers. Pursuant to certain of these agreements we have agreed to indemnify the other party for certain matters, such as property damage, personal injury, acts or omissions of ours, or our employees, agents or representatives, or third-party claims alleging that the activities of its contractual partner pursuant to the contract infringe a patent, trademark or copyright of such third party.

**Legal contingencies**

We are subject to legal proceedings and claims that arise in the ordinary course of business. We record an accrual for a contingency when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. As of December 31, 2016, in our opinion, there was not at least a reasonable possibility that these actions arising in the ordinary course of business will have a material adverse effect upon our consolidated financial position, results of operations or cash flows and, therefore, no material loss contingencies were recorded.

**12. Income Taxes**

We file income tax returns in the U.S. for federal and various state jurisdictions as well as in foreign jurisdictions including Canada, the United Kingdom, Australia and Ireland. We are generally subject to U.S. federal income tax examination for calendar tax years 2013 through 2016 as well as state and foreign income tax examinations for various years depending on statutes of limitations of those jurisdictions.

The following summarizes the components of income tax expense:

	Years ended December		
	31,		
(dollars in thousands)	2016	2015	2014
<b>Current taxes:</b>			
U.S. Federal	\$4,655	\$5,890	\$5,757
U.S. State and local	1,670	2,215	2,158
International	53	33	(21 )
Total current taxes	6,378	8,138	7,894
<b>Deferred taxes:</b>			
U.S. Federal	2,544	2,702	4,725
U.S. State and local	304	585	(1,329 )
International	185	(122 )	(346 )
Total deferred taxes	3,033	3,165	3,050
<b>Total income tax provision</b>	<b>\$9,411</b>	<b>\$11,303</b>	<b>\$10,944</b>

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

The following table presents the carrying amounts of RLC's assets and liabilities immediately preceding the disposition on May 18, 2015, which are excluded from our consolidated balance sheets as of December 31, 2016 and 2015.

(in thousands)

Cash and cash equivalents	\$952
Accounts receivable, net of allowance	132
Prepaid expenses and other assets	38
Property and equipment, net	31
Deferred tax asset	6
Goodwill	1,374
Intangible assets, net	289
Total assets held-for-sale	\$2,822
Trade accounts payable	\$82
Accrued expenses and other liabilities	181
Deferred revenue	490
Deferred tax liability	90
Total liabilities held-for-sale	\$843

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Blackbaud, Inc.

**PART III.**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by Item 10 with respect to Directors and Executive Officers is incorporated by reference from the information under the captions “Election of Directors,” “Information Regarding Meetings of the Board and Committees,” “Section 16(a) Beneficial Ownership Reporting Compliance,” and “Code of Business Conduct and Ethics and Code of Ethics,” contained in Blackbaud’s Proxy Statement for the 2017 Annual Meeting of Stockholders expected to be held on June 13, 2017, except for the identification of executive officers of the Registrant which is set forth in Part I of this report.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by Item 11 is incorporated by reference from the information under the captions "Director Compensation," "Executive Compensation," "Compensation Discussion and Analysis" and "Summary Compensation Table" contained in Blackbaud’s Proxy Statement for the 2017 Annual Meeting of Stockholders expected to be held on June 13, 2017.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by Item 12 is incorporated by reference from information under the captions “Stock Ownership” and “Equity Compensation Plan Information” contained in Blackbaud’s Proxy Statement for the 2017 Annual Meeting of Stockholders expected to be held on June 13, 2017.

**ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

The information required by Item 13 is incorporated by reference from the information under the captions “Transactions with Related Persons,” and “Independence of Directors” contained in Blackbaud’s Proxy Statement for the 2017 Annual Meeting of Stockholders expected to be held on June 13, 2017.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by Item 14 is incorporated by reference from the information under the caption “Audit Committee Report,” contained in Blackbaud’s Proxy Statement for the 2017 Annual Meeting of Stockholders expected to be held on June 13, 2017.

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Blackbaud, Inc.

## PART IV.

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are included as part of the Annual Report on Form 10-K:

## 1. Financial statements

The following statements are filed as part of this report:

	Page No.
<u>Report of independent registered public accounting firm</u>	<u>60</u>
Consolidated balance sheets as of December 31, 2016 and 2015	<u>61</u>
Consolidated statements of comprehensive income for the years ended December 31, 2016, 2015 and 2014	<u>62</u>
Consolidated statements of cash flows for the years ended December 31, 2016, 2015 and 2014	<u>63</u>
Consolidated statements of stockholders' equity for the years ended December 31, 2016, 2015 and 2014	<u>64</u>
<u>Notes to consolidated financial statements</u>	<u>65</u>

## 2. Financial statement schedules

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements thereto.

## 3. Exhibits

The exhibits listed below are filed or incorporated by reference as part of this Annual Report on Form 10-K:

Exhibit Number	Description of Document	Filed In Registrant's Form	Dated	Exhibit Number	Filed Herewith
2.1	Agreement and Plan of Merger and Reincorporation dated April 6, 2004	S-1/A	4/6/2004	2.1	
2.2	Stock Purchase Agreement dated January 16, 2007 by and among Target Software, Inc., Target Analysis Group, Inc., all of the stockholders of Target Software, Inc. and Target Analysis Group, Inc., Charles Longfield, as stockholder representative, and Blackbaud, Inc.	8-K	1/18/2007	2.2	
2.3	Agreement and Plan of Merger dated as of May 29, 2008 by and among Blackbaud, Inc., Eucalyptus Acquisition Corporation and Kintera, Inc.	8-K	5/30/2008	2.3	
2.4	Share Purchase Agreement dated as of April 29, 2009 between RLC Group B.V., as the Seller, and Blackbaud, Inc., as the Purchaser	10-Q	8/7/2009	10.42	
2.5	* Stock Purchase Agreement dated as of February 1, 2011 by and among Public Interest Data, Inc., all for the stockholders of Public Interest Data, Inc., Stephen W. Zautke, as stockholder representative and Blackbaud, Inc.	10-Q	5/10/2011	2.3	
2.6	Agreement and Plan of Merger dated as of January 16, 2012 by and among Blackbaud, Inc., Caribou Acquisition Corporation and Convio, Inc.	8-K	1/17/2012	2.4	

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Exhibit Number	Description of Document	Filed In Registrant's Form	Dated	Exhibit Number	Filed Herewith
2.7	Stock Purchase Agreement dated as of October 6, 2011 by and among Everyday Hero Pty. Ltd., all of the stockholders of Everyday Hero Pty. Ltd., Nathan Betteridge as stockholder representative and Blackbaud Pacific Pty. Ltd.	10-K	2/29/2012	2.7	
2.8	Purchase Agreement, dated August 30, 2014, by and among MicroEdge Holdings, LLC, Blackbaud, Inc, direct and indirect holders of all of the outstanding equity interests of MicroEdge Holdings, LLC, and VFF I AIV I, L.P., as Sellers' Representative.	8-K	10/2/2014	10.76	
2.9	Unit Purchase Agreement, dated as of August 10, 2015, by and between Smart Tuition Holdings, LLC and Blackbaud, Inc.	8-K	10/8/2015	10.78	
2.10	Amendment, Consent and Waiver, Agreement dated as of October 2, 2015, by and between Smart Tuition Holdings, LLC and Blackbaud, Inc.	8-K	10/8/2015	10.79	
3.4	Amended and Restated Certificate of Incorporation of Blackbaud, Inc.	DEF 14A	4/30/2009		
3.5	Amended and Restated Bylaws of Blackbaud, Inc.	8-K	3/22/2011	3.4	
10.6 †	Blackbaud, Inc. 1999 Stock Option Plan, as amended	S-1/A	4/6/2004	10.6	
10.8 †	Blackbaud, Inc. 2001 Stock Option Plan, as amended	S-1/A	4/6/2004	10.8	
10.20 †	Blackbaud, Inc. 2004 Stock Plan, as amended, together with Form of Notice of Stock Option Grant and Stock Option Agreement	8-K	6/20/2006	10.20	
10.26 †	Form of Notice of Restricted Stock Grant and Restricted Stock Agreement under the Blackbaud, Inc. 2004 Stock Plan	10-K	2/28/2007	10.26	
10.27 †	Form of Notice of Stock Appreciation Rights Grant and Stock Appreciation Rights Agreement under the Blackbaud, Inc. 2004 Stock Plan	10-K	2/28/2007	10.27	
10.33 †	Blackbaud, Inc. 2008 Equity Incentive Plan	DEF 14A	4/29/2008		
10.34 †	Form of Notice of Grant and Stock Option Agreement under Blackbaud, Inc. 2008 Equity Incentive Plan	S-8	8/4/2008	10.34	
10.35 †	Form of Notice of Grant and Restricted Stock Agreement under Blackbaud, Inc. 2008 Equity Incentive Plan	S-8	8/4/2008	10.35	
10.36 †	Form of Notice of Grant and Stock Appreciation Rights Agreement under Blackbaud, Inc. 2008 Equity Incentive Plan	S-8	8/4/2008	10.36	
10.37 †**	Kintera, Inc. 2000 Stock Option Plan, as amended, and form of Stock Option Agreement thereunder	10-K/A	3/26/2008	10.2	
10.38 †**	Kintera, Inc. Amended and Restated 2003 Equity Incentive Plan, as amended, and form of Stock Option Agreement thereunder	10-K/A	3/26/2008	10.3	
10.39 †	Form of Retention Agreement	10-Q	11/10/2008	10.37	

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February 22,  
2017

Peter J. Kight

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